Market Study with Financial Projections

Proposed Headquarters Hotel

San Antonio, Texas

Prepared by:

HVS International
Division of DFW Hospitality Consulting, LLC
2601 Sagebrush Drive, Suite 101
Flower Mound, TX 75028
(972) 899-5400
(972) 899-1022 FAX

Submitted to:

City of San Antonio
Second Floor, City Hall
San Antonio, Texas 78205
(210) 207-8088

May 18, 2004

Mr. Christopher J. Brady
Assistant City Manager
City of San Antonio
Second Floor, City Hall
San Antonio, Texas 78205
(210) 207-8088

Re: Proposed Headquarters Hotel
San Antonio, Texas
HVS Reference: #2004240048

2601 Sagebrush Drive
Suite 101
Flower Mound, Texas 75028
(972) 899-5400
(972) 899-1022 Fax
www.hvsinternational.com

Dear Mr. Brady:

We herewith submit our market study pertaining to the above-captioned project. We have inspected the sites and analyzed the hotel market conditions in the San Antonio area. This document details our forecast of income and expense for the defined hotel.

We hereby certify that we have no undisclosed interest in the project, and our employment and compensation are not contingent upon our findings and recommendation. This report may not be distributed or relied upon by other persons or entities without our written permission. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Very truly yours,
HVS INTERNATIONAL
Division of DFW Hospitality Consulting, LLC

DRAFT REPORT

Amanda Repert
Vice President

DRAFT REPORT

Rod Clough, MAI
Managing Director

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1. Introduction

Executive Summary

The subject of the market study is a proposed 1,000-room convention headquarters hotel to be located adjacent to the Henry B. Gonzalez Convention Center in downtown San Antonio, Texas. Site factors are further detailed in Chapter Two. We have assumed an opening date of January 1, 2008 for this property. In addition to these rooms, it is assumed that the hotel will offer approximately ±90,000 square feet of on-site meeting and function space, a concept restaurant, a casual restaurant, a lobby lounge, a business center, a gift shop, a swimming pool and whirlpool, an exercise room, and back-of-the-house facilities typically found in a hotel of this type. The proposed building is further analyzed in Chapter Seven.

The downtown San Antonio hotel market continues to show strength over regionally competitive cities such as Houston and Dallas. Dynamics include a popular national and international tourism and historic destination as well as a world-class meetings and convention market; these allow the downtown San Antonio market to realize healthy occupancy levels despite weaker national economic conditions since late 2000 and 2001. While the defined downtown market lacks significant levels of traditional corporate demand generators which are generally concentrated throughout suburban sub-markets, a strong convention market associated with a popular leisure and tourist destination continues to bode well for downtown hotels; conversely, however, consistently mature occupancy levels and hotel demand has spurred vast development of new hotel supply throughout the downtown area within recent years. These economic trends, which are further detailed in Chapter Three, show downtown office vacancy climbed to just over 18.0%, as companies downsized during the recession. Unemployment surpassed 5.0% in the city of San Antonio by year-end 2002 and peaked in 2003 at 5.9%. Fortunately, recent months have shown an improving employment trend; however, part of this improvement is attributed to benefit expiration.

The Henry B. Gonzalez Convention Center has realized production of strong convention room night figures since 1999, further assisting in the strength and growth of the city as a premier meetings and convention destination which further fortifies an already strong tourism destination. Between 1999 and 2000, the center produced between 678,000 and 700,000 annual room nights; by 2002, the center's strongest year, room night production reached 827,000 (rounded) room nights before a modest decline in 2003.

Due to advance booking and cyclical booking patterns, the San Antonio meetings and convention room night production realized the strongest year in 2002. While most markets suffered declines and constriction of tourism, travel, and convention demand levels attributed to factors such as an overall decline in convention travel following the terrorist attacks of September 2001 and the economy's constriction, the San Antonio area was able to sustain markedly strong performance. However, in 2003, the center's room night production declined by nearly 15% following more national and regional fall-out of convention travel and room night pick-up as well as heightened competition from other convention destinations in the nation, such as Chicago, Las Vegas, and Orlando. Additionally, nearby regional markets, which were not considered competitive in the meetings and convention market with San Antonio, came on-line with new and/or expanded convention facilities as well as headquarters hotel facilities. These include Austin, Houston, and the Gaylord Texan in Grapevine, all with openings in late 2003 or early 2004. Convention trends are further detailed in Chapter Eight.

While supply levels have remained generally stable throughout the defined, downtown competitive set throughout the historical period, there have been additions on the supply side, outside of the defined, downtown, full-service competitive set. Positive demand levels associated with travel and tourism, as well as convention and meetings demand, have negated impacts relating to limited-service and extended-stay supply additions downtown in recent years. However, the rather steady performance of the market leaders within the competitive set may begin to be compromised, especially in average rate growth, as lower-rated, limited-service hotels continue to enter the inventory. The following table further illustrates these historical market supply and demand trends.

Historical Supply and Demand Trends (STR)

	1998	1999	2000	2001	2002	2003	Year-to-Date Through February 2003	Year-to-Date Through February 2004	Average Annual Compounded Change: 1998-2003
Average Daily Room Count	5,362	5,448	5,846	5,846	5,846	5,846	5,846	5,846	
Available Room Nights	1,957,130	1,988,678	2,133,790	2,133,790	2,133,790	2,133,790	344,914	344,914	
Change	—	1.6 %	7.3 %	0.0 %	0.0 %	0.0 %	—	0.0 %	1.7 %
Occupied Room Nights	1,472,627	1,445,492	1,584,612	1,509,190	1,587,431	1,554,287	236,231	241,089	
Change	—	(1.8) %	9.6 %	(4.8) %	5.2 %	(2.1) %	—	2.1 %	1.1 %
Occupancy	75.2 %	72.7 %	74.3 %	70.7 %	74.4 %	72.8 %	68.5 %	69.9 %	
Change	—	(3.4) %	2.2 %	(4.8) %	5.2 %	(2.1) %	—	2.1 %	(0.6) %
Average Rate	$129.69	$130.44	$134.06	$137.14	$139.63	$131.24	$136.53	$133.34	
Change	—	0.6 %	2.8 %	2.3 %	1.8 %	(6.0) %	—	(2.3) %	0.2 %
RevPAR	$97.58	$94.81	$99.56	$97.00	$103.88	$95.60	$93.51	$93.21	
Change	—	(2.8) %	5.0 %	(2.6) %	7.1 %	(8.0) %	—	(0.3) %	(0.4) %

Source: Smith Travel Research

The salability of the San Antonio market as a whole as well as the convention center has become increasingly crippled due to the increased competitive environment, on a regional basis, as well as the lack of an adjacent headquarters hotel. The 1.3 million total square feet at the Henry B. Gonzalez Convention Center includes the addition of 220,000 square feet of contiguous exhibit space and the addition of the 40,000-square-foot Ballroom C as recently as May 2001. While the center realizes consistent and adequate utilization, increased competition relating to the presence of new and/or expanded convention facilities and convention headquarters hotel projects may negatively impact the salability and utilization of the center in the future. The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

Factors in Choosing an Association Meeting Location and Facility

Top Factors When Choosing Location	Association Meetings	Conventions
Availability of Suitable Hotels	70 %	80 %
Affordability of Destination	76	75
Safety and Security of Destination	45	51
Ease of Transportation	50	50
Transportation Costs	43	39
Distance Traveled by Attendees	54	49
Clean and Unspoiled Environment	28	31
Climate	19	23
Availability of Recreational Facilities	16	19
Sightseeing, Cultural Events, Attractions	17	19
Mandated by By-Laws	23	26
Glamorous/Popular Image of Location	11	11

Top Factors When Choosing Hotel Within Location	Association Meetings	Conventions
Number, Size, and Quality of Meeting Rooms	71 %	87 %
Negotiable Food, Beverage, and Room Rates	71	80
Cost of Hotel or Meeting Facility	76	80
Quality of Food Service	62	71
Number, Size, and Quality of Sleeping Rooms	54	71
Efficiency of Billing Procedures	44	48
Availability of Meeting Support Services	47	50
Assignment of One Staff Person To Handle Meeting	43	52
Efficiency of Check-in/Check-out Procedures	40	44
Availability of Exhibit Space	21	44
Previous Experience in Dealing with Facility and Staff	39	43
Proximity to Shopping, Restaurants, Off-site Entertainment	16	24
Number, Size, and Quality of Suites	23	21
Proximity to Airport	26	21
Convenience to Other Modes of Transportation	25	22
Provision of Special Meeting Services	17	16
Meeting Rooms with Multiple High Speed Lines/Outlets	22	21
Fax Modem Hook-Ups in Sleeping Rooms	16	15
Other On-site Recreational Facilities	10	9
On-site Golf Course	10	9

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

Although the City is marketed with a grouping of adjacent hotels which can serve as headquarters facilities to the convention center, the multiple grouping has reportedly resulted in restrictions to peak night groups. Moreover, the city of San Antonio will soon be one of a select few cities without a designated, adjacent headquarters hotel. This is illustrated in the following table.

Hotel Presence in Competitive Convention Cities

Convention Center	Proposed/Planned Headquarters Hotel	Adjacent Headquarters Hotel	Existing Primary Hotel	Existing Primary Hotel	Existing Primary Hotel
Orlando Orange County	1,000-rm Peabody Expansion	891-rm Peabody Hotel	2,267-rm Swan & Dolphin	2,000-rm Marriott	Many other large Orlando hotels
Chicago McCormick Place	—	800-rm Hyatt	2,019-rm Hyatt Regency	1,543-rm Hilton	1,192-rm Marriott & 1,209-rm Sheraton
Atlanta Georgia World Congress	—	1,067-rm Omni (Expanded)	1,675-rm Marriott	1,264-rm Grand Hyatt	1,224-rm Hilton
Dallas	Under Study	—	1,122-rm Hyatt	1,614-rm Wyndham Anatole	1,840-rm Adam's Mark
New Orleans	Under Study (for 2nd hotel)	1,616-rm Hilton	1,100 Sheraton	1,344-rm Marriott	1,184-rm Hyatt
Houston	—	1,200-rm Hilton (New)	977-rm Hyatt	350-rm DoubleTree	399-rm Four Seasons
Denver	1,100-rm Hyatt (late 2006)	—	1,225-rm Adam's Mark	613-rm Marriott	511-rm Hyatt
San Diego Convention Center	—	1,303-rm Marriott	1,625-rm Hyatt (Expanded)	450-rm Westin	—
St. Louis	—	875-rm Renaissance (New)	910-rm Adam's Mark	780-rm Millenium	672-rm Marriott & 538-rm Hyatt
San Antonio	Under Study	—	1,001-rm Marriott	632-rm Hyatt	515-rm Marriott
Kansas City	—	946-rm Marriott	731-rm Hyatt	729-rm Westin	—
Indianapolis	—	587-rm Marriott (New)	573-rm Westin	497-rm Hyatt	424-rm Omni
Charlotte	—	700-rm Westin (New)	613-rm Adam's Mark	434-rm Marriott	407-rm Hilton
Austin	—	800-rm Hilton (New)	446-rm Hyatt	413-rm Radisson	375-rm Omni
Fort Worth	Under Study	—	517-rm Radisson	504-rm Renaissance	430-rm Fort Worth Plaza Hotel
Birmingham	—	770-rm Sheraton	298-rm Radisson	—	—
Tampa Convention Center	—	717-rm Marriott (New)	521-rm Hyatt	299-rm Wyndham	312-rm Holiday Inn
Memphis	202-rm Marriott Expansion	400-rm Marriott	468-rm Peabody	280-rm Radisson	—

Downtown San Antonio and corresponding convention demand levels have reportedly already begun to face stiffer competition, as the massive Gaylord Texan opened in early April in Grapevine with 1,500 guestrooms and over 400,000 square feet of meeting and exhibition space. Additionally, the 800-room Hilton Austin opened in late 2003/early 2004 with ±60,000 square feet of on-site meeting and function space adjacent to the expanded Austin Convention Center while the 1,200-room Hilton opened within a similar time frame at the George R. Brown Convention Center in Houston.

While the presence of a headquarters hotel downtown would lessen the impact of the Gaylord Texan and other regional headquarters hotel openings such as Austin and Houston on city of San Antonio hotel occupancy tax collections, the lack of a headquarters hotel is not the only factor limiting the center's salability. Now that headquarters hotels are becoming more the norm nationwide, rather than the exception to the norm, meeting planners are placing an increasingly greater emphasis on other complementary factors, such as the attractiveness of the convention experience within the local neighborhood. The downtown San Antonio market has benefited in the past from its focus as a national and international tourism destination inclusive of historical and cultural enhancements throughout the downtown tourist district. These attributes are expected further enhance development of a headquarters hotel facility and the salability of the City as a whole similar to Chicago, New Orleans, and San Diego.

These factors, as well as the demonstrated levels of turn-away demand presented by the convention bureau and examples of other headquarters hotel openings, are utilized in the development of our induced demand estimate. This is presented in Chapter Eight, which is followed by our estimates of occupancy and average room rate which are detailed in Chapters Nine and Ten.

Chapter Eleven details our income and expense projection, which is based on a review of comparable operations and local market revenue and expense factors. We also take into consideration the living wage requirement of this project. The tables on the following pages present our projection: first, a detailed forecast through the fifth projection year, including amounts per available room (PAR) and per occupied room (POR); second, a summary forecast through the tenth projection year. The forecasts pertain to calendar operating years beginning January 1, 2008, and are expressed in inflated dollars for each year.

Detailed Forecast of Income and Expense, Proposed Headquarters Hotel, San Antonio, Texas

	2008				2009				2010				Stabilized				2012			
Number of Rooms:	1000				1000				1000				1000				1000			
Occupancy:	62%				68%				71%				73%				73%			
Average Rate:	$159.78				$168.56				$175.38				$180.66				$186.08			
RevPAR:	$99.06				$114.62				$124.52				$131.88				$135.84			
Days Open:	365				365				365				365				365			
Occupied Rooms:	226,300	%Gross	PAR	POR	248,200	%Gross	PAR	POR	259,150	%Gross	PAR	POR	266,450	%Gross	PAR	POR	266,450	%Gross	PAR	POR
REVENUE																				
Rooms	$36,157	64.9 %	$36,157	$159.77	$41,837	64.6 %	$41,837	$168.56	$45,449	64.4 %	$45,449	$175.38	$48,137	64.4 %	$48,137	$180.66	$49,581	64.4 %	$49,581	$186.08
Food & Beverage	16,361	29.4	16,361	72.30	19,225	29.7	19,225	77.46	21,084	29.9	21,084	81.36	22,396	30.0	22,396	84.05	23,067	30.0	23,067	86.57
Telephone	1,058	1.9	1,058	4.67	1,183	1.8	1,183	4.76	1,266	1.8	1,266	4.89	1,337	1.8	1,337	5.02	1,377	1.8	1,377	5.17
Other Income	2,110	3.8	2,110	9.32	2,492	3.8	2,492	10.04	2,736	3.9	2,736	10.56	2,841	3.8	2,841	10.66	2,926	3.8	2,926	10.98
Total Revenues	55,686	100.0	55,686	246.07	64,736	100.0	64,736	260.82	70,534	100.0	70,534	272.18	74,711	100.0	74,711	280.39	76,952	100.0	76,952	288.80
DEPARTMENTAL EXPENSES *																				
Rooms	9,047	25.0	9,047	39.98	10,163	24.3	10,163	40.95	10,862	23.9	10,862	41.92	11,312	23.5	11,312	42.46	11,652	23.5	11,652	43.73
Food & Beverage	11,958	73.1	11,958	52.84	13,850	72.0	13,850	55.80	14,959	71.0	14,959	57.72	15,621	69.8	15,621	58.63	16,090	69.8	16,090	60.38
Telephone	673	63.7	673	2.98	738	62.4	738	2.97	771	60.9	771	2.98	802	60.0	802	3.01	826	60.0	826	3.10
Other Expenses	245	11.6	245	1.08	262	10.5	262	1.06	275	10.1	275	1.06	284	10.0	284	1.07	293	10.0	293	1.10
Total	21,924	39.4	21,924	96.88	25,013	38.6	25,013	100.78	26,868	38.1	26,868	103.68	28,020	37.5	28,020	105.16	28,860	37.5	28,860	108.31
DEPARTMENTAL INCOME	33,762	60.6	33,762	149.19	39,723	61.4	39,723	160.05	43,667	61.9	43,667	168.50	46,691	62.5	46,691	175.23	48,092	62.5	48,092	180.49
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	4,051	7.3	4,051	17.90	4,287	6.6	4,287	17.27	4,475	6.3	4,475	17.27	4,642	6.2	4,642	17.42	4,781	6.2	4,781	17.94
Marketing	3,722	6.7	3,722	16.45	3,939	6.1	3,939	15.87	4,113	5.8	4,113	15.87	4,265	5.7	4,265	16.01	4,393	5.7	4,393	16.49
Prop. Operations & Maint.	2,628	4.7	2,628	11.61	2,781	4.3	2,781	11.20	2,903	4.1	2,903	11.20	3,011	4.0	3,011	11.30	3,101	4.0	3,101	11.64
Energy	2,080	3.7	2,080	9.19	2,201	3.4	2,201	8.87	2,298	3.3	2,298	8.87	2,384	3.2	2,384	8.95	2,455	3.2	2,455	9.21
Total	12,481	22.4	12,481	55.15	13,208	20.4	13,208	53.22	13,789	19.5	13,789	53.21	14,301	19.1	14,301	53.67	14,730	19.1	14,730	55.28
HOUSE PROFIT	21,281	38.2	21,281	94.04	26,515	41.0	26,515	106.83	29,878	42.4	29,878	115.29	32,390	43.4	32,390	121.56	33,362	43.4	33,362	125.21
Management Fee	1,671	3.0	1,671	7.38	1,942	3.0	1,942	7.82	2,116	3.0	2,116	8.17	2,241	3.0	2,241	8.41	2,309	3.0	2,309	8.66
INCOME BEFORE FIXED CHARGES	19,611	35.2	19,611	86.66	24,573	38.0	24,573	99.00	27,762	39.4	27,762	107.13	30,149	40.4	30,149	113.15	31,053	40.4	31,053	116.54
FIXED EXPENSES																				
Property Taxes	2,646	4.8	2,646	11.69	2,686	4.1	2,686	10.82	2,726	3.9	2,726	10.52	2,767	3.7	2,767	10.39	2,850	3.7	2,850	10.70
Insurance	689	1.2	689	3.04	709	1.1	709	2.86	731	1.0	731	2.82	753	1.0	753	2.82	775	1.0	775	2.91
Reserve for Replacement	1,114	2.0	1,114	4.92	1,942	3.0	1,942	7.82	2,821	4.0	2,821	10.89	3,736	5.0	3,736	14.02	3,848	5.0	3,848	14.44
Total	4,449	8.0	4,449	19.66	5,338	8.2	5,338	21.51	6,279	8.9	6,279	24.23	7,256	9.7	7,256	27.23	7,473	9.7	7,473	28.05
NET INCOME	$15,162	27.2 %	$15,162	$67.00	$19,235	29.8 %	$19,235	$77.50	$21,483	30.5 %	$21,483	$82.90	$22,893	30.7 %	$22,893	$85.92	$23,580	30.7 %	$23,580	$88.50

*Departmental expenses are expressed as a percentage of departmental revenues.

Summary Forecast of Income and Expense, Proposed Headquarters Hotel, San Antonio, Texas

	2008		2009		2010		2011		2012		2013		2014		2015		2016		2017	
Number of Rooms:	1000		1000		1000		1000		1000		1000		1000		1000		1000		1000	
Occupied Rooms:	226,300		248,200		259,150		266,450		266,450		266,450		266,450		266,450		266,450		266,450	
Occupancy:	62%		68%		71%		73%		73%		73%		73%		73%		73%		73%	
Average Rate:	$159.78	% of	$168.56	% of	$175.38	% of	$180.66	% of	$186.08	% of	$191.66	% of	$197.41	% of	$203.34	% of	$209.44	% of	$215.72	% of
RevPAR:	$99.06	Gross	$114.62	Gross	$124.52	Gross	$131.88	Gross	$135.84	Gross	$139.91	Gross	$144.11	Gross	$148.44	Gross	$152.89	Gross	$157.48	Gross
REVENUE																				
Rooms	$36,157	64.9 %	$41,837	64.6 %	$45,449	64.4 %	$48,137	64.4 %	$49,581	64.4 %	$51,069	64.4 %	$52,601	64.4 %	$54,179	64.4 %	$55,804	64.4 %	$57,478	64.4 %
Food & Beverage	16,361	29.4	19,225	29.7	21,084	29.9	22,396	30.0	23,067	30.0	23,759	30.0	24,472	30.0	25,206	30.0	25,963	30.0	26,741	30.0
Telephone	1,058	1.9	1,183	1.8	1,266	1.8	1,337	1.8	1,377	1.8	1,418	1.8	1,461	1.8	1,505	1.8	1,550	1.8	1,597	1.8
Other Income	2,110	3.8	2,492	3.8	2,736	3.9	2,841	3.8	2,926	3.8	3,014	3.8	3,105	3.8	3,198	3.8	3,294	3.8	3,393	3.8
Total	55,686	100.0	64,736	100.0	70,534	100.0	74,711	100.0	76,952	100.0	79,261	100.0	81,639	100.0	84,088	100.0	86,610	100.0	89,209	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	9,047	25.0	10,163	24.3	10,862	23.9	11,312	23.5	11,652	23.5	12,001	23.5	12,361	23.5	12,732	23.5	13,114	23.5	13,507	23.5
Food & Beverage	11,958	73.1	13,850	72.0	14,959	71.0	15,621	69.8	16,090	69.8	16,572	69.8	17,069	69.8	17,581	69.8	18,109	69.8	18,652	69.8
Telephone	673	63.7	738	62.4	771	60.9	802	60.0	826	60.0	851	60.0	877	60.0	903	60.0	930	60.0	958	60.0
Other Expenses	245	11.6	262	10.5	275	10.1	284	10.0	293	10.0	301	10.0	310	10.0	320	10.0	329	10.0	339	10.0
Total	21,924	39.4	25,013	38.6	26,868	38.1	28,020	37.5	28,860	37.5	29,726	37.5	30,618	37.5	31,536	37.5	32,482	37.5	33,457	37.5
DEPARTMENTAL INCOME	33,762	60.6	39,723	61.4	43,667	61.9	46,691	62.5	48,092	62.5	49,535	62.5	51,021	62.5	52,552	62.5	54,128	62.5	55,752	62.5
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	4,051	7.3	4,287	6.6	4,475	6.3	4,642	6.2	4,781	6.2	4,924	6.2	5,072	6.2	5,224	6.2	5,381	6.2	5,542	6.2
Marketing	3,722	6.7	3,939	6.1	4,113	5.8	4,265	5.7	4,393	5.7	4,525	5.7	4,661	5.7	4,801	5.7	4,945	5.7	5,093	5.7
Prop. Operations & Maint.	2,628	4.7	2,781	4.3	2,903	4.1	3,011	4.0	3,101	4.0	3,194	4.0	3,290	4.0	3,389	4.0	3,490	4.0	3,595	4.0
Energy	2,080	3.7	2,201	3.4	2,298	3.3	2,384	3.2	2,455	3.2	2,529	3.2	2,605	3.2	2,683	3.2	2,763	3.2	2,846	3.2
Total	12,481	22.4	13,208	20.4	13,789	19.5	14,301	19.1	14,730	19.1	15,172	19.1	15,627	19.1	16,096	19.1	16,579	19.1	17,076	19.1
HOUSE PROFIT	21,281	38.2	26,515	41.0	29,878	42.4	32,390	43.4	33,362	43.4	34,363	43.4	35,394	43.4	36,456	43.4	37,549	43.4	38,675	43.4
Management Fee	1,671	3.0	1,942	3.0	2,116	3.0	2,241	3.0	2,309	3.0	2,378	3.0	2,449	3.0	2,523	3.0	2,598	3.0	2,676	3.0
INCOME BEFORE FIXED CHARGES	19,611	35.2	24,573	38.0	27,762	39.4	30,149	40.4	31,053	40.4	31,985	40.4	32,945	40.4	33,933	40.4	34,951	40.4	35,999	40.4
FIXED EXPENSES																				
Property Taxes	2,646	4.8	2,686	4.1	2,726	3.9	2,767	3.7	2,850	3.7	2,936	3.7	3,024	3.7	3,115	3.7	3,208	3.7	3,304	3.7
Insurance	689	1.2	709	1.1	731	1.0	753	1.0	775	1.0	799	1.0	822	1.0	847	1.0	873	1.0	899	1.0
Reserve for Replacement	1,114	2.0	1,942	3.0	2,821	4.0	3,736	5.0	3,848	5.0	3,963	5.0	4,082	5.0	4,204	5.0	4,331	5.0	4,460	5.0
Total	4,449	8.0	5,338	8.2	6,279	8.9	7,256	9.7	7,473	9.7	7,697	9.7	7,928	9.7	8,166	9.7	8,411	9.7	8,663	9.7
NET INCOME	$15,162	27.2 %	$19,235	29.8 %	$21,483	30.5 %	$22,893	30.7 %	$23,580	30.7 %	$24,288	30.7 %	$25,016	30.7 %	$25,767	30.7 %	$26,539	30.7 %	$27,336	30.7 %

*Departmental expenses are expressed as a percentage of departmental revenues.

Definition of the Convention Headquarters Hotel

The subject property is expected to serve as the primary convention headquarters hotel for groups utilizing the San Antonio Convention Center in downtown San Antonio, Texas. The term "headquarters" is given to that hotel which serves as the center of operations for an event occurring in the city's convention center. This hotel typically dedicates the largest room block to the event, sometimes devoting up to 90% of its room count during the peak day(s) of the convention to that specific group. The headquarters property also handles a majority of the food and beverage needs of the group (outside of those held in the convention center), in particular receptions and banquet lunches and dinners. While the adjacent convention center may handle the large-scale exhibits and meetings, the convention headquarters hotel will often handle smaller ancillary meetings and breakouts, and pre- and post-group meetings.

The headquarters property typically features one of the larger room counts in the given market with one of the larger ballrooms. The most prominent brands for a convention headquarters hotel include Hyatt, Hilton, Marriott, Starwood's Westin and Sheraton brands, Omni, and Peabody. Our report will feature an extensive review of regionally-significant headquarters hotels, as these facilities will compete with the subject property for regionally- and nationally-based meeting demand.

Objective of the Market Study

The objective of this report is to evaluate the supply and demand factors affecting the market for hotel accommodations in the San Antonio area as well as those factors affecting the market for regional and national meetings demand, for the purpose of developing an income and expense projection for the proposed facilities.

Use of the Study

This market study is being prepared for use by City of San Antonio in connection with the development of the subject property. The information presented in this report should not be disseminated to the public or third parties (with the exception of potential investors and lenders) without the express written consent of HVS International.

Method of Study

The methodology used to develop this market study is based on the market research and analysis techniques set forth in the textbooks authored by HVS International for the American Institute of Real Estate Appraisers and the

Appraisal Institute, entitled *The Valuation of Hotels and Motels,*[1] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[2] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[3] and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations.*[4] The specific steps of which are as follows:

1. The physical orientation of the subject site with respect to access and visibility to highways, other forms of transportation and the local demand for transient and meeting accommodations was analyzed. We also reviewed the supportive nature of surrounding land uses as they related to demand trends and the proposed subject property.

2. The demand for transient and meeting and group accommodations was investigated to identify the various generators of visitation operating within the local market. The current and anticipated potential of each of these market segments was evaluated to determine the extent of existing and future demand. Interviews with officials of business and government, as well as statistical data collected during the fieldwork, was useful in locating and quantifying transient demand.

3. The market orientation of area lodging facilities was evaluated to determine their competitive position with respect to the proposed subject property. Those properties displaying similar market attributes received a physical inspection, along with selective management interviews, to estimate levels of occupancy, room rates, operating ratios, market segmentation and other pertinent operational characteristics. Some of the competitive factors that were specifically reviewed include: location, type and quality of facilities, rate structure (daily, weekly, monthly), physical condition, management expertise and chain affiliation.

4. Statistical data relating to general economic and demographic trends often foreshadows future potential for market areas and neighborhoods.

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[1] Stephen Rushmore, *The Valuation of Hotels and Motels.* (Chicago: American Institute of Real Estate Appraisers, 1978).
[2] Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies.* (Chicago: American Institute of Real Estate Appraisers, 1983).
[3] Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations.* (Chicago: American Institute of Real Estate Appraisers, 1990).
[4] Stephen Rushmore, Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations. (Chicago: Appraisal Institute, 1992).

Interviews with local Chambers of Commerce, economic development agencies and other related organizations, along with an investigation of the subject property's primary market area revealed patterns reflecting stability with a moderate amount of growth.

5. Expense factors relating to local conditions such as labor, food and beverage costs, energy rates, assessed values and taxes were researched. We utilized actual expense experience from comparable properties in the economic portions of our report.

6. Through interviews with hotel operators, developers, governmental officials and others, we ascertained the status of projects under construction, proposed or rumored which might be competitive with the subject property.

7. Based on the data and information gathered during the fieldwork phase, along with our extensive library of actual hotel operating statements, financial statistics, area hotel trends and investor requirements, we performed a supply and demand analysis for the subject property to determine its anticipated market orientation and competitive position with respect to other lodging facilities. This analysis resulted in a quantification and documentation of probable future trends in the subject property's occupancy, average rate, and overall rooms revenues.

8. A projection of income and expenses representing future expectations of income potential was made for a ten-year period of time. This analysis utilized HVS software, a sophisticated computerized financial analysis package, developed by Stephen Rushmore, CRE, CHA, MAI and Suzanne Mellen, CRE, MAI. The logic behind the projection of income and expense is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. The software takes a known level of revenue or expense and calculates the fixed and variable component. The fixed component is then held constant while the variable component is adjusted for the percent change between the projected occupancy and facility usage that produced the known level of revenue or expense. Our projected income and expense statement conforms with the Uniform System of Accounts for Hotels and includes a detailed line-by-line account of all revenue sources and expenses.

Management Company and Affiliation

Upon completion, we have assumed that the subject property would be managed by a nationally recognized management company with a nationally recognized and well-respected brand name affiliation. As of the date of this report, the brand name affiliation had not been chosen for the proposed subject property.

Pertinent Dates

HVS International completed its fieldwork and analysis during the month of April 2004. The sites and market was visited and analyzed by Amanda Repert and Rod Clough, MAI.

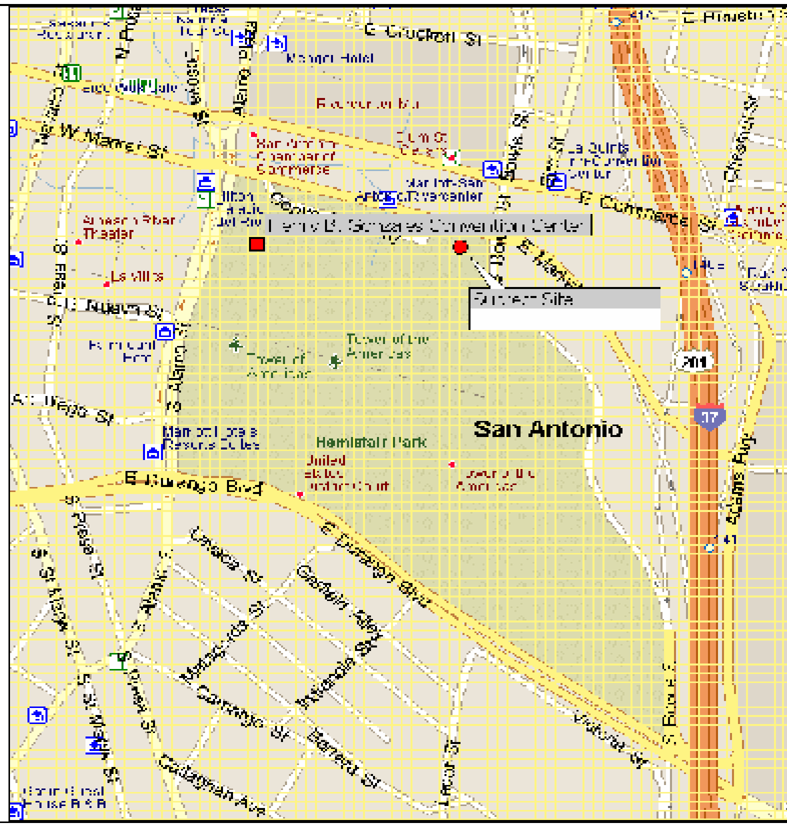
2. Description of the Real Estate

The suitability of the land for the operation of a convention headquarters hotel is an important consideration affecting the economic viability of a proposed property and its overall potential for revenue generation. Factors such as proximity of the convention center, proximity of leisure attractions and shopping, proximity to other complementary demand generators, site size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

Site Characteristics

The site under consideration for potential hotel development is adjacent to the Henry B. Gonzalez Convention Center, and is indicated on the following map.

Development Site



The subject site is positioned directly northeast of the Lila Cockrell Theater and eastern-most convention center facilities, within the southwest quadrant of the intersection formed by Bowie and Market streets. Aside from its immediate access to and from the convention center, the subject site is also well-positioned among multiple, popular attractions of the downtown area including the Alamo, the Rivercenter Mall, the Alamodome, and the Riverwalk. The subject site is reportedly one of few parcels along the Riverwalk which is suitable and available for future hotel development.

For the purposes of our study, we have assumed that the parcel designated for hotel use will be of ample size to contain the recommended improvements and necessary parking. According to information provided by representatives of the San Antonio Convention Center Hotel Advisory Board, the subject site encompasses a roughly 118,850-square-foot area. We have assumed that the development of the site with hotel use will fall within City guidelines for property development and will conform to applicable City and county development guidelines. Hence, we assume that all necessary permits and approvals will be secured (including an appropriate liquor license), and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. According to information provided by representatives of the city, development on the site is not restricted by height, floor area ratio, or setback requirements. We assume that a flood zone analysis would be completed and that appropriate insurance would be obtained for this risk if deemed necessary.

We have been informed of and assume that the subject site will be served by all necessary utilities. These should be acquired from the most cost effective providers. Geological and soil reports were not provided to the consultants or made available for review during the preparation of this report. The consultants are not qualified to evaluate soil conditions other than by a visual inspection of the surface. No extraordinary conditions were apparent. Moreover, the consultants have not been informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because the consultants are not experts in this field, we do not warrant the absence of hazardous waste, and we urge the reader to obtain an independent analysis of these factors.

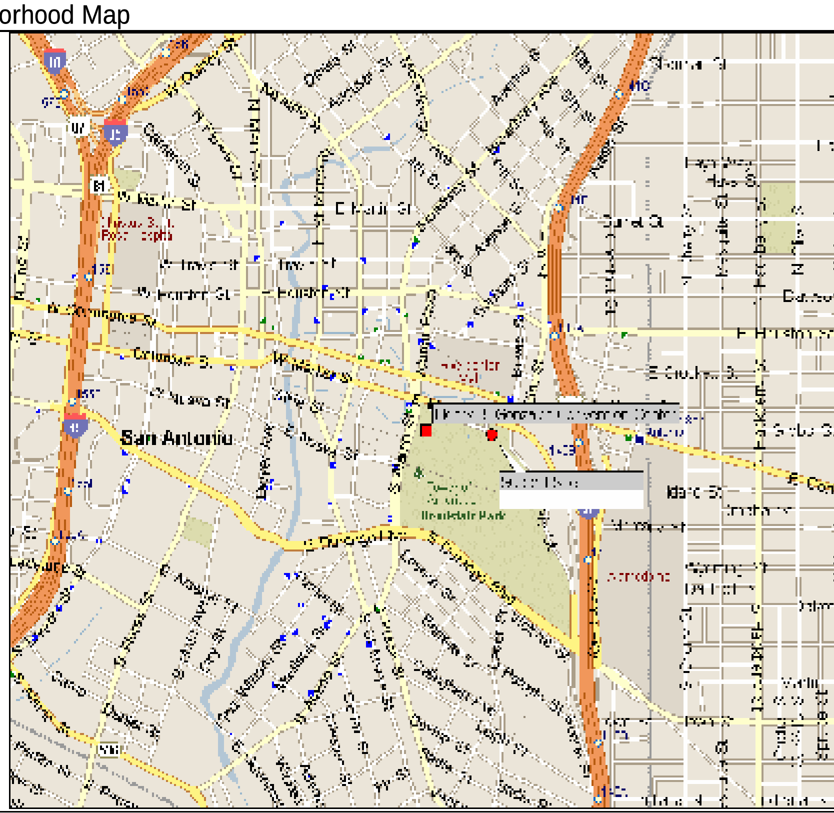
Neighborhood and Access to Demand Generators

The suitability of the neighborhood for a convention headquarters hotel and the accessibility to local demand generators are important factors when analyzing a marketplace. Corporate travelers prefer hotels close to their places of business, while leisure travelers prefer accommodations close to restaurants, museums, theaters, stores, and other attractions. Meeting travelers prefer lodging close to their meeting facility and to the amenities popular with leisure travelers.

As noted, the site is located adjacent to the convention center, which is ideal for serving this demand generator. The center anchors the eastern boundaries of downtown San Antonio, and is bordered by Market Street to the north, the Riverwalk and South Alamo Street to the west, Hemisfair Park to the south, and South Bowie Street followed by Interstate 37 to the east. Other sites in this general area are improved with municipal buildings and hotels, as well as shopping and retail venues, parking structures, parks, and historical sites. Convention travelers prefer to be in close proximity to stores, restaurants, and performing arts venues. The primary shopping, restaurant, and entertainment areas are within very close proximity to the subject site; the Rivercenter retail complex is only one block north of the property.

The added importance of the proximity and inclusion of the Alamodome into the convention complex must also be emphasized. Generally regarded as a sports complex and facility, the Alamodome is located within roughly one-quarter mile of the subject site and the existing convention center complex. Physical attributes of the venue encompass 160,000 square feet of contiguous exhibit floor space, 16 meeting rooms totaling over 30,000 square feet of conference space, 38 private club-level suites, and an 8-truck-bay loading dock and holding area. The Alamodome can be configured to accommodate groups ranging in size from 10,000 to just over 77,000 in attendance. Like Henry B. Gonzalez, the Alamodome features high-tech voice data, audio, and video systems, along with catering functions, and efficient vertical transportation; the facility also houses over 2,800 on-site parking spaces specific to the complex. Additionally, although located east of I-37, the Alamodome is serviced by all downtown trolleys as well as a pedestrian walkway from the convention center.

Neighborhood Map



Downtown redevelopment projects emerged beginning in the mid- to late 1990s as financing incentives were made available to developers trying to renovate older, vacant buildings. This revitalization continues today, and is transforming central downtown into an even more vibrant neighborhood. Because the city of San Antonio benefits from being a cultural, historical, and tourism destination within Texas and the nation, continued downtown improvements are vital to continued urban development and sustainable tourism efforts. In addition to the development of the proposed subject property as an integral component of downtown redevelopment efforts, the following is a list of downtown redevelopment projects currently underway according to the city's department of economic development.

- Houston Street Project – this historic downtown commercial district will experience a renewed street scene including live theatre, musical performances, Broadway shows, museums, shops, restaurants, and bars. In addition to cultural development along Houston Street, the revitalization is expected to promote further commercial and residential activity in the surrounding area.
- Crockett Street Project – a public/private partnership intended to revitalize three vacant historic buildings, to provide an accessible connection between the Riverwalk and Crockett Street, and provide a subterranean connection between the renovated buildings and the Riverwalk. In connection with improvements to the Riverwalk along Crockett Street between St. Mary's and Navarro Streets, an elevator will be installed connecting river level to street level. This project will be financed by City debt instruments supported by the Tax Increment Fund.

In addition, the downtown San Antonio marketplace has benefited from vast commercial development and redevelopment efforts in the form of commercial projects such as hotels, restaurants, and entertainment venues. Several years ago, residential redevelopment interest in the downtown area was sparked in older, historic office buildings which have long since been vacated. This new interest in downtown development first began in the bordering districts, which featured many low-rise, vacant, historic buildings that were well-suited for loft apartment conversions. The following is a list of select commercial and residential projects, provided the city's economic development department, which are either recently completed or currently underway in downtown San Antonio.

- Friedrick Building, 1617 E. Commerce – residential and commercial.

- Matthews/Higbie Complex, block bounded by Commerce, Presa, Market, and Navarro – three restaurants and a 12- to 17-room boutique hotel.
- Aztec Theater Development, Crockett Street – restaurant and entertainment complex; estimated capital budget of $13,000,000 with target completion of fall 2006.
- Peterson Building, 235 E. Crockett Street – building renovation and restaurant project; estimated capital budget of $1,500,000 and target completion date of fall 2004.
- La Quinta Convention Center Inn & Suites, Blum and Bowie streets – 350-room hotel tower and conference center; estimated capital budget of $26,000,000 and late 2004 target completion.
- Vallaje Del Rio, Broadway and Avenue A – 253 upscale apartment units, retail, and office spanning two city blocks; estimated capital budget of $17,500,000 and spring 2005 completion date.
- La Cascada Condo Tower and Hotel, Dwyer at Nueva – 12-story, 62-unit condo tower and 62-unit upscale boutique hotel with five-story parking structure; estimated $25,000,000 capital budget and late 2004 completion.
- Victoria Courts Redevelopment, Durango at Labor – mixed use redevelopment including both commercial and residential components; estimated capital budget of $65,000,000 with a summer 2007 completion time frame.
- Riverwalk Suites Hotel, Market at Navarro – 266-unit, 12-story, all-suite hotel; estimated $30,000,000 development budget and spring 2006 completion date.
- Travis Park Lofts, 218 E. Travis – redevelopment of Frost Brothers Building into a 17-unit condominium complex.
- San Fernando Community Center, Commerce at Cammeron – 3 stories and 30,000 square feet including a 1,000-seat banquet hall, cathedral offices, and meeting/class rooms.
- Museo Americano, Santa Rosa at Commerce – Smithsonian affiliate, official state Latino museum including 15,000 square feet of exhibit space.

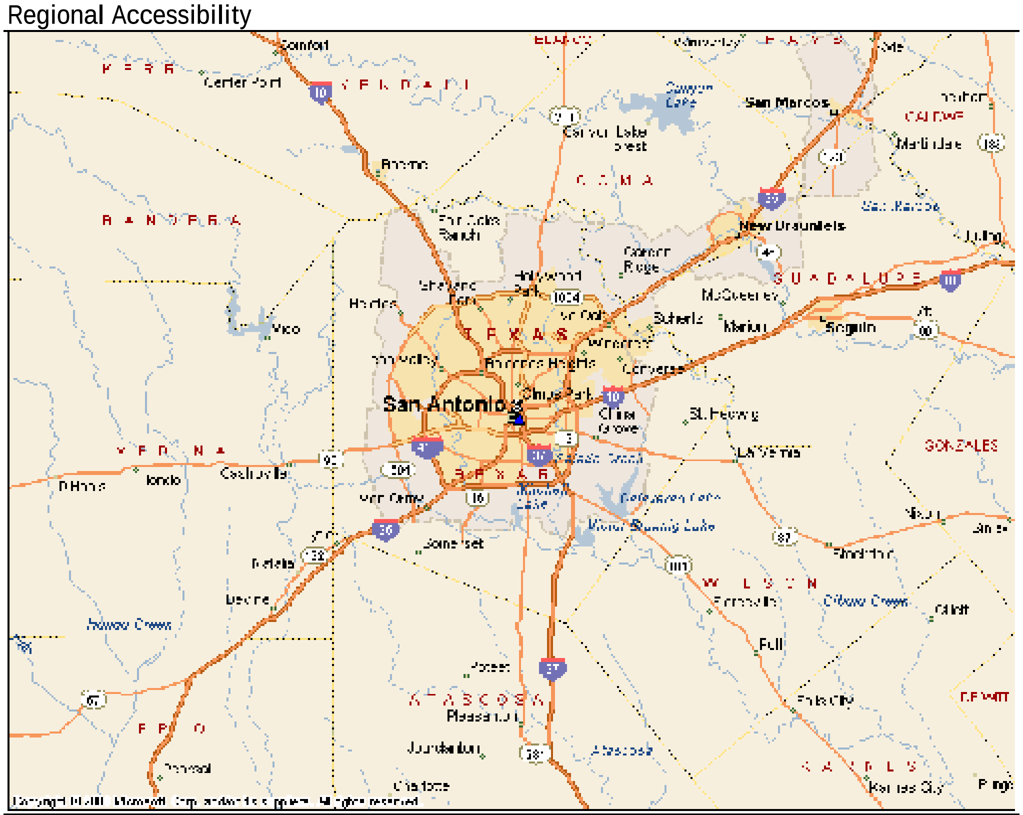
Various additional projects are considered either anticipated and/or proposed at this time for development within San Antonio’s downtown commercial and tourism center. Additional projects include proposed hotels, pedestrian improvements, and commercial conversions, among others.

Continued aggressive development and redevelopment efforts, proposed by both public and private interests, are expected to bode well for continued success in terms of historical preservation efforts, tourism, and commercial expansion throughout the downtown neighborhood. Overall, the outlook for downtown San Antonio remains strong and encouraging. The highly supportive nature of the already-popular tourist and historical district, including shopping, entertainment, and lodging venues, bodes extremely well for convention and meeting demand, historically and in the future.

Regional Access

It is important to analyze a lodging facility's ease of access with respect to regional transportation routes in the area. In general, Bexar County enjoys excellent accessibility to points throughout the region. The following map illustrates San Antonio’s location and the major interstate highways that serve the city.

Regional Accessibility



The subject site enjoys very good accessibility via a variety of local, county, state, and interstate highways. The major interstates are 10, 35, and 37.

Additional regional roadways and arteries serving the San Antonio area include U.S. Highway 281, a north-south highway known as the McAllister Freeway and U.S. Highway 90, an east-west highway, extending through the south-central regions of the United States.

Interstate 10 is a major cross country route, commencing in the Los Angeles metropolitan area in southern California and traversing eastward to its eastern terminus in Jacksonville, Florida. Along this route, the interstate serves as the major expressway through southern Texas, linking El Paso on the western edge of the state with San Antonio in the central portion to Houston and Beaumont further east. Interstate 35 is a primary north-south interstate extending from north of Duluth, Minnesota, south through Iowa, Kansas, Oklahoma, and northern Texas before reaching San Antonio and continuing southward to the Mexico border. Through Texas, Interstate 35 links the Dallas/Fort Worth Metroplex with Austin and San Antonio to the south. Interstate 10 is located roughly two miles west of the subject, accessed by passing through the downtown district. Interstate 35 is located roughly two miles to the north and can be directly accessed off of U.S. Highway 281. Creating a loop around the San Antonio metropolitan area, Interstate 410 is roughly 8 miles east and 9 miles north of the subject property.

Accessibility has been a primary factor in San Antonio's success as a regional and national meeting place. This accessibility is a function of the variety of transportation services that serve the area, including major highways and the San Antonio International Airport. Overall, accessibility within the market of proposed subject is considered very good.

Local Access and Visibility

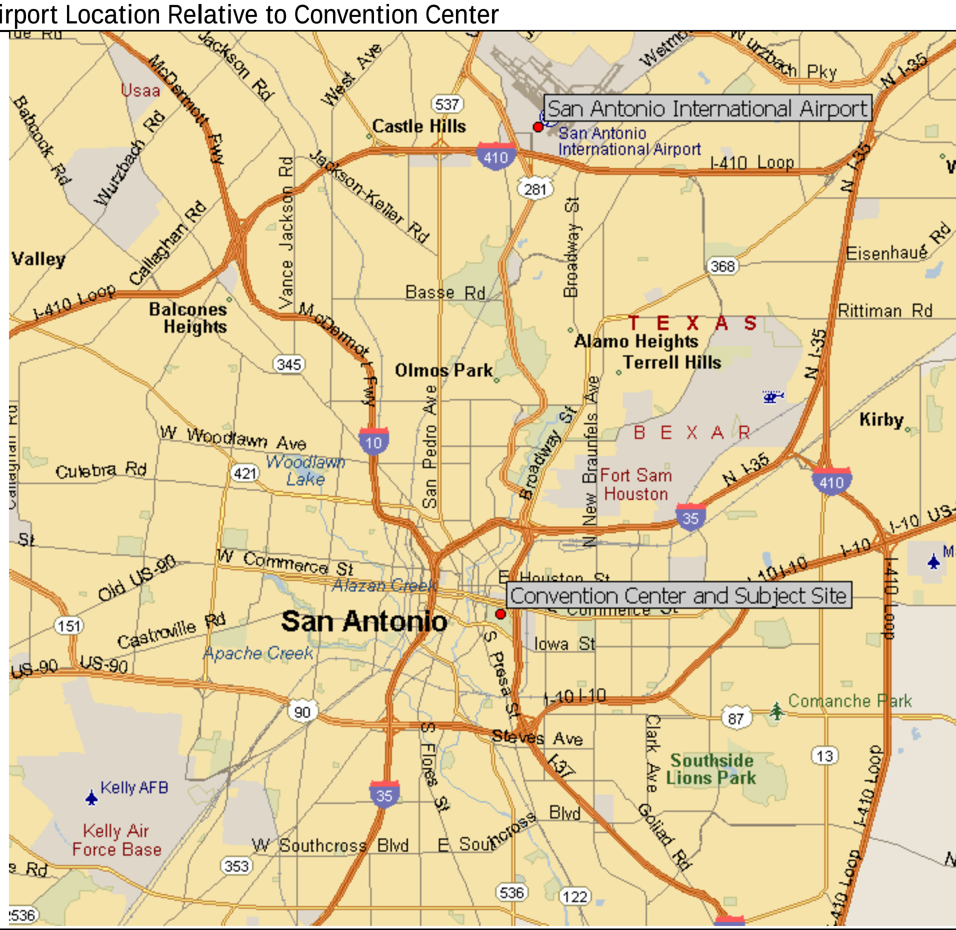
Local access to the downtown San Antonio area and the subject site is convenient from the various regional transportation routes that converge upon the downtown area. The street network in the downtown area, both east/west and north/south, is typically characterized by an alternating, one-way traffic pattern. Although accessing different sites in the downtown area may require looping around the block depending on your entry point to the area, the one-way streets generally provide improved overall local access in the downtown area.

The site is adjacent to the convention center and the Riverwalk. The hotel tower should enjoy adequate visibility within the market. However, because the property is not expected to generate a considerable amount of highway-related demand from motorists passing on the surrounding regional transportation routes, this visibility attribute is not considered a significant factor.

Airport Access

The subject property is well served by the San Antonio International Airport, located roughly eight miles north of the subject site. Access to the airport is simple to navigate via the city's well-marked roadway system.

Airport Location Relative to Convention Center



The airlift capability of San Antonio International Airport is appropriate to the level of convention and tourism activity in the city.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The site is located within the popular downtown market of San Antonio, and is adjacent to the recently expanded San Antonio Convention Center and the Riverwalk, both of which are major demand generators for the downtown market. Also, the site is easily found within downtown San Antonio and is proximate to southeastern entry points into the downtown area. The site has the appropriate size and topography to allow for the development of the planned hotel facility. No major disadvantages were noted.

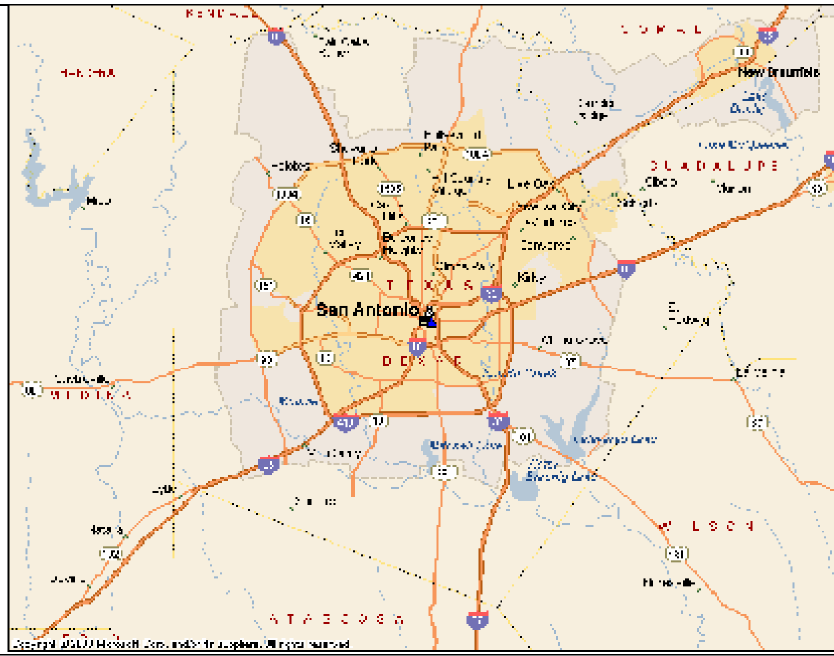
3. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project hostelry demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand with the objective of forecasting the amount of growth or decline in transient visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

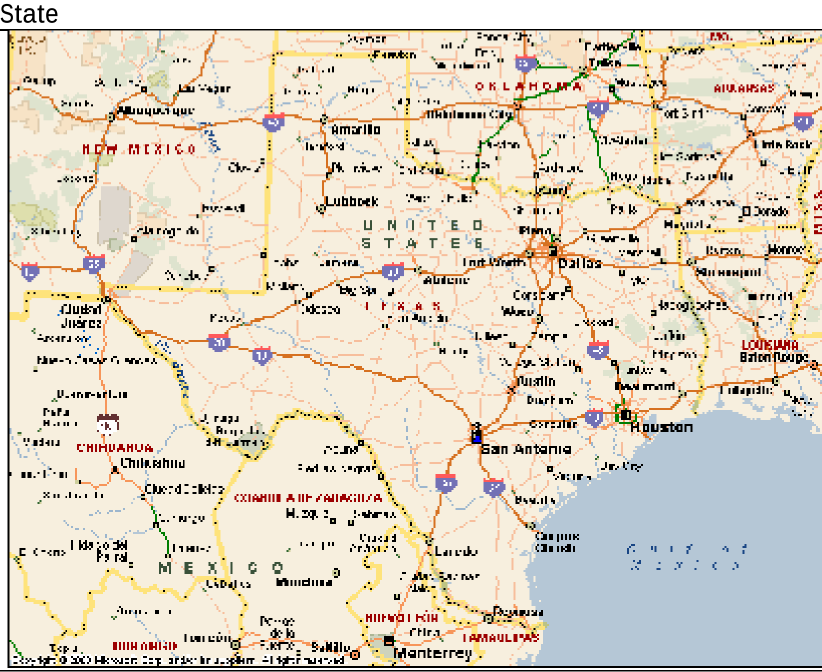
Market Area Definition

The market area for a lodging facility is the geographical region where the sources of transient visitation (demand) and the competitive supply are located. The subject site is located in the city of San Antonio, county of Bexar, and the state of Texas. The subject property's market area can be defined by its Metropolitan Statistical Area (MSA): San Antonio. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration. In addition to Bexar County, the San Antonio includes three other counties, including: Comal, Guadalupe, and Wilson. The following exhibit illustrates a map of the market area.

Map of Market Area



Map of State



Economic and Demographic Statistics

The following summary of economic and demographic statistics is taken from the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc. – a well-regarded forecasting service based in Washington, DC. Using a database containing more than 300 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, and thus reflect real change. It should be noted that the percent changes indicated in the following tables are based on unrounded figures, and thus may not calculate exactly.

Economic and Demographic Data Summary

					Average Annual Compounded Change		
	1990	2000	2003	2010	1990-00	2000-03	2003-10
Resident Population (Thousands)							
Bexar County	1,187.8	1,398.5	1,468.7	1,636.0	1.6 %	1.6 %	1.6 %
San Antonio, TX MSA	1,327.6	1,600.0	1,685.7	1,879.3	1.9	1.8	1.6
State of Texas	17,056.8	20,955.2	22,062.6	24,451.8	2.1	1.7	1.5
United States	249,622.8	282,224.3	291,214.8	311,573.1	1.2	1.1	1.0
Per-Capita Personal Income*							
Bexar County	$19,181.0	$24,090.0	$24,916.0	$27,056.0	2.3	1.1	1.2
San Antonio, TX MSA	19,083.0	23,959.0	24,716.0	26,919.0	2.3	1.0	1.2
State of Texas	20,374.0	25,832.0	26,584.0	28,754.0	2.4	1.0	1.1
United States	22,856.0	27,432.0	28,326.0	30,637.0	1.8	1.1	1.1
W&P Wealth Index							
Bexar County	86.7	89.1	89.2	89.4	0.3	0.0	0.0
San Antonio, TX MSA	86.3	88.7	88.6	89.1	0.3	(0.0)	0.1
State of Texas	91.9	95.1	94.8	94.8	0.3	(0.1)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food & Beverage Sales (Gross)*							
Bexar County	$1,207.6	$1,707.5	$1,886.6	$2,339.1	3.5	3.4	3.1
San Antonio, TX MSA	1,293.9	1,848.5	2,047.5	2,542.0	3.6	3.5	3.1
State of Texas	14,484.2	20,777.4	23,014.9	28,344.9	3.7	3.5	3.0
United States	216,297.9	282,228.8	306,830.3	365,034.7	2.7	2.8	2.5
Total Retail Sales (Millions)*							
Bexar County	$9,553.7	$13,950.6	$14,990.7	$17,837.3	3.9	2.4	2.5
San Antonio, TX MSA	10,456.2	15,496.7	16,702.0	19,901.9	4.0	2.5	2.5
State of Texas	139,372.3	216,486.6	233,325.1	276,760.3	4.5	2.5	2.5
United States	2,089,724.5	2,933,677.5	3,100,300.8	3,553,091.5	3.5	1.9	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Population

Although there is no direct correlation between the size of an area's population and its specific level of transient visitation, a review of an area's historical and projected population trends and composition is an important step in evaluating the local economic climate and determining projected growth in demand for lodging facilities. An expanding area population suggests both an increasing commercial base and growth in room night demand attributable to relocations. In addition, an increase in the local resident base indicates a rise in the number of leisure travelers arriving in the area, because the motivation behind many trips is to visit friends and relatives. The rate of population growth will generally establish a minimum rate of increase in an area's lodging demand, and thus population statistics are relevant to our analysis. Population changes are an economic trend that often reflects business activity and lodging demand.

According to Woods & Poole Economics, Inc., the population of the county and MSA increased by average annual rates of 1.6% and 1.9%, respectively, between 1990 and 2000. Similar and slightly lower growth rates of 1.6% and 1.8%, respectively, were registered between 2000 and 2003 for the county and MSA. The population remains quite stable and is showing some growth. The statewide and national population levels increased at similar rates to the county and MSA, with average annual compounded growth rates of 2.1% and 1.2%, respectively, from 1990 to 2000, and 1.7% and 1.1%, respectively, from 2000 to 2003.

Projections indicate that population increases for the county, MSA, state, and nation from 2003 through 2010 will be stable or slightly lower than those experienced in the historical periods. Bexar County is projected to achieve an average annual compounded growth rate of 1.6% during this period. The San Antonio MSA is projected to increase by 1.6%, while the state of Texas' population is projected to increase by 1.5% annually between 2003 and 2010. Forecasts for the nation as a whole indicate an average annual compounded population increase of 1.0%, between 2003 and 2010.

Per Capita Personal Income

According to the procedures outlined in the National Income and Product Accounts, personal income is calculated by totaling earned income (wages, salaries, other labor income, and proprietor's income), non-earned income, and residence adjustments and subtracting personal contributions to social insurance. Trends in personal income reflect the spending ability of local residents.

Woods & Poole Economics, Inc. reports that per capita personal income rose at an average annual compounded rate of 2.3% in Bexar County and the MSA between 1990 and 2000. The state of Texas obtained an average annual increase of 2.4%, while the 1.8% average annual compounded increase in the United States was lower than gains achieved in the subject property's market area. During the period of 2000 to 2003, the average annual compounded growth rate was 1.1% in Bexar County and 1.0% in the San Antonio MSA. The state and nation maintained slight growth rates of 1.0% and 1.1%, respectively, during this period. Projections through 2010 indicate somewhat higher growth rates than those illustrated than the most recent historical time periods. In addition, growth expected in the Bexar County and MSA categories is minimal.

W&P Wealth Index

The W&P Wealth Index measures a populace's affluence relative to the national average (US=100.0). This index refers to the wealth of Bexar County, the San Antonio MSA, and the state of Texas, compared to the nation, which is registered at 100.0. The Woods & Poole wealth index recognizes a 100.0 level for the nation as an equal percentage; higher levels indicate a wealthy and stable level while lower levels indicate slightly lower wealth levels in a particular area. In Bexar County, the wealth index was measured at 86.7 in 1990, 89.1 in 2000, and 89.2 in 2003. This reflects overall stability in wages in the local market relative to the national level. A slight increase in the W&P Index level is anticipated by 2010 as indicated by the projected 89.4 index level.

Total Food and Beverage Sales

Food and beverage sales are important trends for hotels. Full-service and convention-oriented hotels generate a significant portion of their revenues from hotel restaurants and banquet activities. Restaurant patronage and revenue trends also have a direct correlation to the propensity for area residents to use area venues. For tourist-rich regions, food and beverage sales also indicate levels of visitation.

Trends provided by Woods & Poole Economics, Inc. show that food and beverage sales between 1990 and 2000 expanded by 3.5% and 3.6%, respectively, in Bexar County and the MSA. Food and beverage sales in the state increased by 3.7% annually during the period. By comparison, the national growth rate was 2.7% per year during this same time period. From 2000 to 2003, food and beverage sales growth in Bexar County moderated slightly, registering an average annual growth rate of 3.4%. In the MSA, food and beverage sales also moderated slightly to the 3.5% average annual growth level. State food and beverage sales also declined, resulting in a average annual compounded growth rate of 3.5% between 2000 and 2003.

Bexar County food and beverage sales are projected to expand at a less significant pace than recent historical figures. Forecasts show an average annual compounded rate of 3.1% between 2003 and 2010 for the county. The MSA forecasts an average annual compounded rate of 3.1% between 2003 and 2010. Statewide and nationwide food and beverage sales are forecasted to expand at annual compounded rates of 3.0% and 2.5%, respectively, between 2003 and 2010.

Total Retail Sales

Retail sales levels reflect both population trends and the propensity to spend money on retail goods. There is no direct correlation between retail sales and hotel demand; however, retail sales trends tend to gauge the economic health and vitality of the market. Retail sales growth should cause local businesses to prosper and make it more likely for new firms to enter the market, thus causing an increase in the demand for lodging facilities. In areas where tourism is a significant economic factor, retail sales also reflect the amount of visitation.

Information from Woods & Poole Economics, Inc. reveals that between 1990 and 2000, retail sales in Bexar County increased at an average annual compounded rate of 3.9%. Retail sales also rose for the San Antonio MSA with an average annual compounded rate of 4.0%. Similarly, retail sales in the state and nation increased at rates of 4.5% and 3.5%, respectively, on average annually.

From 2000 to 2003, retail sales showed growth for the county, MSA, state, and the nation. Retail sales are projected to slow to a moderate average annual compounded rate of 2.5% in the county and MSA between 2003 and 2010. Retail sales in the state are also expected to experience a growth rate of 2.5% annually. The projected state retail sales growth is expected to outperform the anticipated national growth rate of 2.0% per year.

Work Force Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE), wholesale trade, and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, and transportation, communications, and public utilities (TCPU) employers can also be important, depending upon the company type. The following table sets forth the Bexar County workforce distribution by business sector in 1990, 2000, and 2003, as well as a forecast for 2010.

Historical and Projected Employment - Bexar County (000s)

Industry	1990	Percent of Total	2000	Percent of Total	2003	Percent of Total	2010	Percent of Total	Average Annual Compounded Change 1990-2003	2000-2003	2003-2010
Farm	2.6	0.4 %	3.3	0.4 %	3.4	0.4 %	3.5	0.3 %	1.9 %	0.3 %	0.4 %
Agriculture Services, Other	3.8	0.6	6.4	0.7	6.8	0.7	7.6	0.7	4.6	2.2	1.6
Mining	6.3	1.0	4.7	0.6	4.5	0.5	4.4	0.4	(2.7)	(2.0)	(0.1)
Construction	28.9	4.5	52.1	6.1	55.9	6.1	66.1	6.4	5.2	2.3	2.4
Manufacturing	39.8	6.2	45.2	5.3	45.5	5.0	46.5	4.5	1.0	0.2	0.3
Trans., Comm. & Public Utils.	24.6	3.8	42.1	4.9	45.0	4.9	53.4	5.1	4.8	2.3	2.5
Total Trade	139.2	21.7	184.1	21.4	194.2	21.3	221.5	21.3	2.6	1.8	1.9
Wholesale Trade	24.7	3.9	33.6	3.9	36.0	4.0	40.9	3.9	2.9	2.4	1.8
Retail Trade	114.5	17.8	150.5	17.5	158.2	17.4	180.5	17.4	2.5	1.7	1.9
Finance, Insurance, & Real Estate	57.1	8.9	84.2	9.8	89.9	9.9	105.5	10.2	3.5	2.2	2.3
Services	185.9	29.0	281.4	32.7	302.1	33.2	352.2	33.9	3.8	2.4	2.2
Total Government	153.3	23.9	157.1	18.3	162.7	17.9	177.4	17.1	0.5	1.2	1.2
Federal Civilian Govt.	44.8	7.0	30.6	3.6	29.8	3.3	29.8	2.9	(3.1)	(0.8)	(0.0)
Federal Military Govt.	38.1	5.9	36.1	4.2	36.4	4.0	37.3	3.6	(0.4)	0.3	0.4
State & Local Govt.	70.4	11.0	90.5	10.5	96.5	10.6	110.3	10.6	2.4	2.2	1.9
TOTAL	641.6	100.0 %	860.7	100.0 %	909.9	100.0 %	1,038.0	100.0 %	2.7 %	1.9 %	1.9 %

Source: Woods and Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that between 1990 and 2003, the most rapid employment growth in the county occurred in the construction; transportation, communication, and public utilities; and agriculture services, which registered average annual compounded increases of 5.2%, 4.8%, and 4.6%, respectively. Mining and federal civilian and military government showed average annual declines of 2.7%, 3.1%, and 0.4%, respectively. Total employment rose at an average annual compounded rate of 2.7% during this period. Between 2000 and 2003, overall employment registered an increase of 1.9% compounded annually. Woods & Poole forecasts indicate overall employment growth of 1.9% annually from 2003 through 2010. Some shrinkage is expected in the federal civilian government and mining, while minimal to moderate improvements are forecast in all remaining sectors.

Major Business and Industry

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in Bexar County.

Major Employers in Bexar County

Firm	Number of Employees
Valero Energy Corporation	23,000
Fort Sam Houston	17,549
USAA	16,356
Zachary Group	15,153
Lackland AFB/37th Training Wing	13,209
Randolph Air Force Base	10,733
City of San Antonio	10,119
H.E.B. Grocery Company	9,942
Northside I.S.D.	8,870
San Antonio I.S.D.	8,000
SBC Communications, Inc.	6,700
Sanitors Inc.	6,512
North East I.S.D.	6,473
SBC Southwestern Bell	6,000
Baptist Health System	5,300

Source: Greater San Antonio Chamber of Commerce

Bexar County features a variety of industries and employers, which represent a cross-section of hotel demand potential. Some are national in scope, while others operate on a more local basis; many are engaged in high-technology research and manufacturing, and others are active in education, healthcare, defense, and government sectors.

Major industries are highlighted as follows:

- The government and defense sectors employ roundly 41,500 residents of San Antonio. The major employers in this field include Fort Sam Houston, Lackland AFB/37th Training Wing, and Randolph Air Force Base. In addition to significant contributions to the economy, the presence of military provides a great source of talent when military personnel enter the private sector.

- The education sector also plays an important part in San Antonio's economy. Nearly 23,400 residents are employed by Northside I.S.D., San Antonio I.S.D., and North East I.S.D.

- The communications sector also has a known presence in the San Antonio area with the headquarters of SBC Communications and SBC Southwestern Bell being located within the city. The two companies together employ roundly 12,700 residents. In addition to contributions of the local economy, the SBC presence is known throughout the region.

- Valero Energy Corporation is the number one employer in San Antonio with 23,000 employees. Valero is one of the top refining companies in the United States producing more than 2.4 million barrels a day. Valero markets their products in over 40 states, Canada, Latin America, and the Caribbean.

Unemployment Statistics

The following table presents historical average unemployment rates for the city of San Antonio, versus those of the county, the MSA, the state, and the nation, from 1993 to 2003.

Unemployment Statistics

Year	City of San Antonio	Local MSA	Bexar County	Texas	U.S.
1993	6.1 %	5.4 %	5.6 %	7.2 %	6.9 %
1994	5.1	4.6	4.7	6.4	6.1
1995	5.0	4.4	4.6	6.0	5.6
1996	4.9	4.3	4.5	5.6	5.4
1997	4.6	4.1	4.2	5.4	4.9
1998	4.2	3.7	3.8	4.8	4.5
1999	3.5	3.1	3.2	4.6	4.2
2000	3.8	3.4	3.5	4.2	4.0
2001	4.4	4.0	4.1	4.9	4.8
2002	5.5	5.0	5.0	6.3	5.8
2003	6.2	5.5	5.7	6.8	6.0

Source: U.S. Bureau of Labor Statistics

This data illustrates that Bexar County and the MSA have historically achieved lower unemployment rates that the state and the nation, indicating the overall strength of the local economy. The local area also benefited from consistent unemployment rate declines during the historical period until 1999. Increases were noted for the county and MSA in 2000 through 2002, however the levels still remained below the levels noted by the state and the nation. The Bexar County and San Antonio MSA unemployment rate of 5.0% during 2002 was the lowest in the illustrated categories for this year. Increases were noted in 2003 for all categories, however, the city, county, and local MSA all remained below the state.

The following table presents historical unemployment rates for the same categories over the past several months.

Unemployment Statistics – Recent Monthly Trends

Month	City of San Antonio	Local MSA	Bexar County	Texas	U.S.
2003					
February	5.8 %	5.2 %	5.3 %	6.8 %	5.5 %
March	5.6	5.1	5.2	6.6	5.7
April	5.3	4.8	4.9	6.4	6.0
May	5.7	5.1	5.2	6.6	5.8
June	6.9	6.2	6.4	7.7	5.7
July	6.7	6.0	6.2	7.4	5.8
August	6.3	5.7	5.8	7.0	5.8
September	6.1	5.5	5.7	6.8	6.0
October	5.8	5.1	5.3	6.3	6.1
November	5.7	5.1	5.3	6.4	6.4
December	5.4	4.8	4.9	6.0	6.2
2004					
January	6.3 %	5.6 %	5.8 %	6.7 %	5.6 %
February	5.8	5.2	5.3	6.1	5.6
March	5.7	5.1	5.2	6.0	5.7
April	—	—	—	—	5.6

Source: U.S. Bureau of Labor Statistics

This data shows a declining trend the unemployment rates from June through the end of the year in 2003. The summer months of June and July showed levels bracketing the 6.0% to 7.0% levels for the city, local MSA, county, and state. Unemployment rates began to decrease in August 2003 for all categories with exception of the nation. Additionally, unemployment levels have been steadily decreasing in the city, local MSA, and county from January through March 2004; the outlook bodes well for the overall employment health of the market.

Office Space Statistics

Trends in occupied office space are typically among the most reliable indicators of lodging demand, because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand. The following table illustrates recent office space trends for the pertinent market area.

Office Space Statistics

Sub-Market	Net Rentable Area (SF)	Available (SF)	Occupancy Rate	Net Absorption (SF)	Average Rental Rate
CBD	4,775,958	863,360	81.9 %	26,034	$17.38
North Central	8,662,864	1,297,156	85.0	6,144	17.57
Northwest	7,075,079	1,291,703	81.7	62,432	16.64
Northeast	1,298,605	197,996	84.8	(7,475)	16.57
South	247,029	46,403	81.2	3,475	15.44
Totals/Averages	22,059,535	3,696,618	82.9 %	90,610	$16.72

Source: Trammell Crow Company, 4th Quarter 2003 Market Index Brief

The subject property is located within the Central Business District (CBD). The fourth quarter indicated the CBD to have a total of 4,775,958 square feet of office space. The CBD is roundly 82% occupied with 863,360 square feet of available space. The average rental rate is $17.38-per-square-foot. The CBD is the third largest office sub-market within San Antonio. The largest sub-market is located in the north central part of the city. Citywide, there is 22,059,535 square feet of office space, with a roundly 83% occupancy amongst the sub-markets. The average rental rate for the market is $16.72, which is $0.66 lower than the CBD.

This data indicates that downtown San Antonio benefits from a vibrant, albeit small, commercial office space market. The desirable downtown office market does supplement the strong leisure and meeting hotel demand segments with some commercial transient demand.

Airport Traffic

San Antonio is served by San Antonio International Airport. Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

The San Antonio International Airport is located approximately eight miles north of the subject site. San Antonio International Airport is a two-terminal facility served by thirteen major domestic and international carriers. Terminal One, which measures ±365,000 square feet, opened on July 1, 1984, with sixteen upper-level loading gates. Delta, Mexicana, Northwest, Southwest, United, and Atlantic Southeast occupy this terminal. Terminal Two received a $5,000,000 renovation in 1985; this facility measures ±310,000 square feet and provides eight upper-level gates and three more on the ground floor. Aeromar, American, Continental, and America West occupy this terminal.

Approximately 6,000 parking spaces provide daily and hourly parking. The airport has two covered parking garages: one short-term and one long-term. Debuting in October of 1999, the long-term parking garage is five stories with 2,700 spaces. San Antonio is moving forward with its Airport Master Plan. It includes construction of new Concourses B and C, the removal of Terminal 2, and the extension of the elevated terminal roadway system. In addition, the plan will include connectors to the existing and proposed new parking facilities. The completion of the expanded terminal facilities is scheduled for 2008. The following table illustrates important operating statistics for this facility.

Airport Statistics

Year	Passenger Traffic	Percent Change*	Percent Change**
1990	5,425,450	—	—
1991	5,233,589	(3.5) %	(3.5) %
1992	5,525,261	5.6	0.9
1993	5,724,705	3.6	1.8
1994	6,143,976	7.3	3.2
1995	6,126,022	(0.3)	2.5
1996	7,135,291	16.5	4.7
1997	6,960,681	(2.4)	3.6
1998	7,016,908	0.8	3.3
1999	7,095,171	1.1	3.0
2000	7,305,335	3.0	3.0
2001	6,904,396	(5.5)	2.2
2002	6,714,328	(2.8)	1.8
2003	6,616,074	(1.5)	1.5
2003 YTD (March)	1,532,645	—	—
2004 YTD (March)	1,600,013	4.4 %	—

*Annual average compounded percentage change from the previous year
**Annual average compounded percentage change from 1990

Source: City of San Antonio - Aviation Department

As indicated in the previous table, passenger totals increased at an average annual compounded rate of 1.5% from 1990 to 2003. Passenger counts remained relatively flat from 1997 to 2000, although a strong 16.5% increase was posted in 1996. Most recently, the airport noted a 1.5% decrease in 2003, and decreases of 2.8% and 5.5% in 2002 and 2001, respectively.

Tourist Attractions

Tourism is an important factor for San Antonio area hotels. This demand is typically strongest during key weekends and during the summer vacation season. Primary leisure demand generators in the market are listed as follows.

- *The Alamo* – This historic landmark is the site of the battle for Texas' independence.
- *HemisFair Park* – Occupying 92 acres, the park features the Institute of Texan Cultures, the Mexican Cultural Institute, and the Museum of Transportation, as well as fountains, streams, waterfalls, and ponds.
- *Tower of the Americas* – This 750-foot tower was the focal point of the 1968 World's Fair built to commemorate the 250th birthday of San Antonio and is centrally located in HemisFair Park.
- *King William Historic District* – This area is the first historic district in Texas and features many homes built by wealthy immigrants in the late 1880s. The district is located south of downtown San Antonio.
- *La Villita Historic District* – Located adjacent to the Riverwalk, the district is home to many artists and craftsmen.
- *Market Square* – This unique shopping area is patterned after an authentic Mexican Market and is the largest Mexican market in the United States.
- *The Riverwalk* – This 21-block, river-level walkway is lined with restaurants, nightclubs, hotels, and shops and is the focal point of the downtown area. Over 10,500,000 tourists visit the Riverwalk each year.

Riverwalk

- *San Fernando Cathedral* – Built by the Canary Islanders who arrived in San Antonio in 1731, the cathedral is the oldest parish church in Texas.
- *Texas Adventure* – This theater features an action-packed multi-media show, portraying the story of Texas' independence and features state-of-the-art special effects.
- *San Antonio Missions National Historical Park* – Located south of the city, it is the eighth most-visited attraction in Texas. The 475-acre park contains four Spanish colonial missions featuring art and stained glass, and provides church services.
- *Six Flags Fiesta Texas* – The 200-acre family theme park, featuring a variety of rides, shows, and concerts, operates from March through October.
- *SeaWorld San Antonio* – Operating between March and November, SeaWorld is a marine-life adventure park offering a marine animal park, a ride and slide park, a water park, and a show park.

Additional attractions located in the area include the historic Bexar County Courthouse, the Cowboy Museum, the Guenther House Museum, the Botanical Garden and Lucile Halsell Conservatory, the Hertzberg Circus Museum, the IMAX Theater at Rivercenter, Splashtown, Sunset Station, the University of Texas Institute of Texan Cultures, the Mexican Cultural Institute, the Navarro House, the Plaza Theater of Wax, Ripley's Believe It or Not!, St. Paul's Square Historic District, Brackenridge Park, Casa Navarro State Historical Park, the San Antonio Water Museum, the Southwest Craft

Center, the Spanish Governor's Palace, the San Antonio Zoo and Aquarium, the Scobee Planetarium at San Antonio College, The Steves Homestead Museum, and the Vietnam Veterans Memorial.

As mentioned earlier, San Antonio has four military installations, which include Brooks Air Force Base, Fort Sam Houston, Lackland Air Force Base, and Randolph Air Force Base. Visitors are welcomed at each of these installations and provide a historical reminder that the city was founded as a garrisoned fort.

Market Area Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Based on our research of this region, we are able to draw the following conclusions:

- Moderate growth in population, retail sales, personal income per capita, and historical and projected employment for the county, the MSA, and the state underscore the strength of the area's economy.
- The area’s employment is dependent upon a variety of sources, such as government and military, to leisure and amusement parks. Employment in the downtown district is strong, given the prominence and strength of the city’s downtown tourist district.
- The market is well served by San Antonio International Airport, which is located approximately eight miles north of the subject site. Although this airport has noted recent passenger declines, the percent declines have remained in the single digits.
- The market is served by a multitude of tourist attractions.

Overall, the subject market is experiencing growth as San Antonio continues to be a leisure and convention destination.

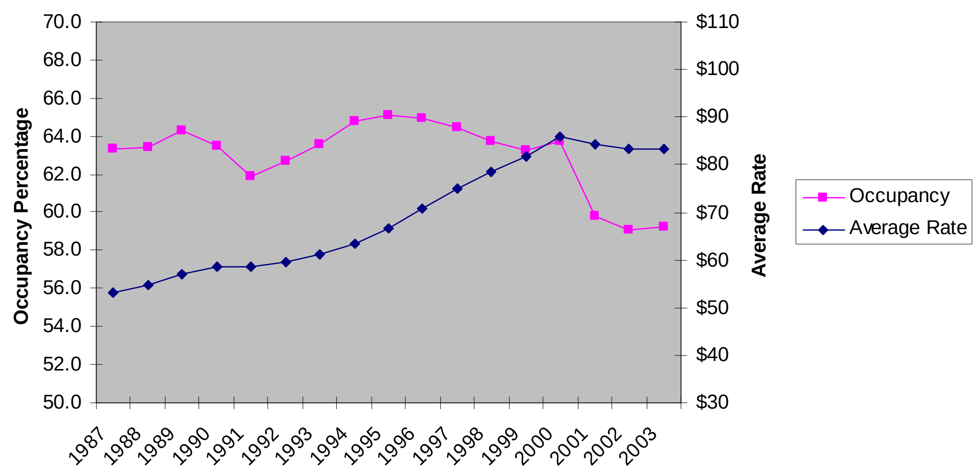
4. Market for Hotel Accommodations

The market for hotel accommodations is an all-encompassing term referring to the many types of travelers who use lodging facilities in a given area. These travelers represent the market's accommodated room night demand. In addition, the market may be characterized by latent demand, which consists of unaccommodated demand and/or induced demand; this demand is discussed in chapter eight of this report. This section will begin with an analysis of historical lodging demand trends to determine what changes have occurred; the historical number of competitive hotel rooms will then be estimated to evaluate local supply trends. Areawide occupancy levels can be calculated based on the number of hotel rooms available in the market and the demand for lodging accommodations. The total room night demand will be divided into individual market segments to allow us to forecast growth rates based on the economic and demographic data set forth earlier in this report.

Overview of National Trends

The U.S. lodging industry showed stabilizing trends in 2003 after experiencing a considerable downturn in 2001 which continued through 2002. The first quarter of 2003 was particularly hard, as military action in the Middle East and uncertain investment markets kept travel budgets tight. Summer travel picked up modestly, and the fall season benefited from real travel increases over 2002 levels. The following table illustrates nationwide occupancy and average rate trends from 1987 through 2003.

National Occupancy and Average Rate Trends (Source: Smith Travel Research)



By the end of the year of 2002, national hotel occupancy fell to 59.1% (a very slight improvement was noted for 2003 to 59.2%), off 0.7 of a point from the 2001 level, according to Smith Travel Research. Average rates dropped by just over $1.00 to $83.35 in 2002; average rates realized a slight decline in 2003 to $83.28.

Occupancy increases should regain some momentum in 2004, as the nation's economy continues to pick up steam and companies start infusing renewed room night demand into the national market. Most lodging markets are expected to begin seeing more direct benefit of the recovery in 2004 and into 2005, as travel trends tend to lag somewhat behind other indicators.

Definition of Subject Hotel Market

The subject site is located within the downtown San Antonio hotel market area. The downtown San Antonio market contains a total of ±10,233 hotel rooms, and can be physically delineated into three concentric circles around the downtown area. The inner circle consists of those hotels located within the Riverwalk's tourist core and their close proximity to the Henry B. Gonzalez Convention Center. The second circle encompasses hotels that are located either proximate to, or along, the Riverwalk pathway, although are not within the tourist core. The third circle includes those hotels that are situated on the outskirts of the central business district. The subject site and its primary competitors are all located within the inner circle of hotels.

The hotels that are situated within the Riverwalk's tourist core are considered the most desirable in the market. The Riverwalk is the most popular attraction within the city and visitors from all market segments have historically demonstrated a strong preference for hotels located in the central Riverwalk area. According to local hoteliers, the advantage of a locale within the Riverwalk's tourist core translates to a significant occupancy premium and an average rate premium of $10 to $25 for comparable properties.

The following table illustrates San Antonio's occupancy levels over the past six years, and the occupancy trends of other pertinent MSAs for comparison.

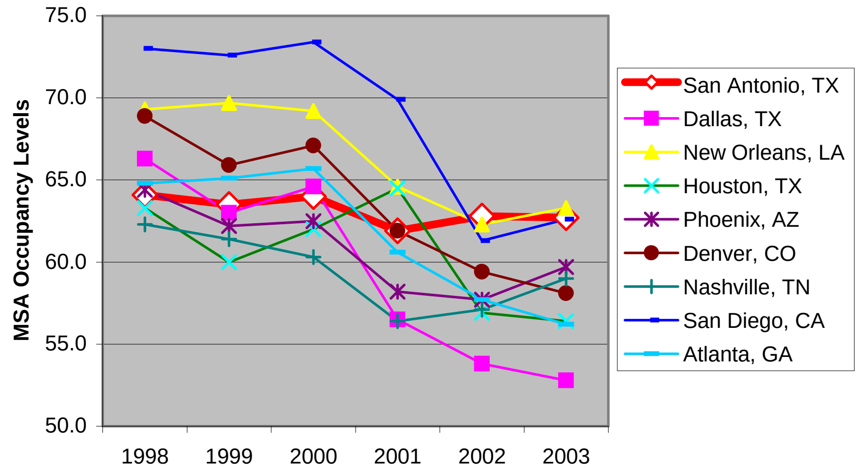
Historical Occupancy Trends: San Antonio MSA vs. Other Top 25 Cities

MSA	1998	1999	2000	2001	2002	2003
San Antonio, TX	64.1	63.5	64.0	61.9	62.8	62.7
Dallas, TX	66.3	63.0	64.6	56.5	53.8	52.8
New Orleans, LA	69.3	69.7	69.2	64.6	62.3	63.3
Houston, TX	63.3	60.0	62.0	64.5	56.9	56.4
Phoenix, AZ	64.4	62.2	62.5	58.2	57.7	59.7
Denver, CO	68.9	65.9	67.1	61.9	59.4	58.1
Nashville, TN	62.3	61.4	60.3	56.4	57.1	59.0
San Diego, CA	73.0	72.6	73.4	69.9	61.3	62.6
Atlanta, GA	64.8	65.1	65.7	60.6	57.7	56.2

Source: Smith Travel Research

The relationship between the various occupancy levels is also illustrated by the following chart.

Historical Occupancy Trends: San Antonio MSA vs. Other Top 25 Cities (STR)



This data reflects the resiliency of the San Antonio market, as occupancy has remained just below 65.0% and is now one of the top citywide occupancies among the selected cities. This strength and stability is due to the city's heightened military activity, well-balanced economy, and its popularity as a tourism and convention destination.

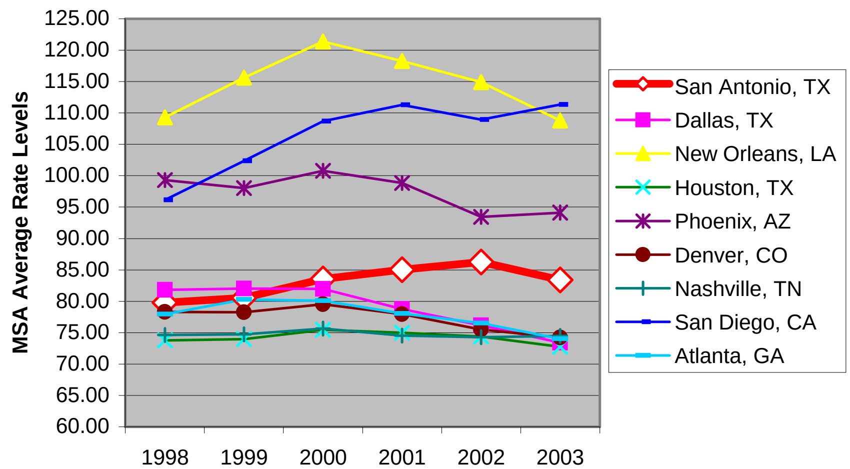
Historical Average Rate Trends: San Antonio MSA vs. Other Top 25 Cities

MSA	1998	1999	2000	2001	2002	2003
San Antonio, TX	79.79	80.56	83.56	85.05	86.29	83.40
Dallas, TX	81.82	82.06	81.99	78.76	76.19	73.44
New Orleans, LA	109.28	115.59	121.37	118.24	114.91	108.76
Houston, TX	73.79	74.00	75.46	74.98	74.37	72.77
Phoenix, AZ	99.30	98.00	100.79	98.81	93.48	94.12
Denver, CO	78.32	78.29	79.55	77.97	75.50	74.22
Nashville, TN	74.65	74.75	75.68	74.53	74.29	74.51
San Diego, CA	96.14	102.33	108.69	111.27	108.93	111.34
Atlanta, GA	77.95	80.29	80.09	78.04	76.54	74.03

Source: Smith Travel Research

The relationship between the various average rate levels is also illustrated by the following chart.

Historical Average Rate Trends: San Antonio MSA vs. Other Top 25 Cities (STR)



This data illustrates that the San Antonio MSA also experienced a relatively healthy average rate trend in 1998 through 2002, with minimal discounting occurring in 2003.

The following chart provides further insight into the San Antonio, TX MSA lodging market by presenting occupied room nights, available room nights, occupancies, average rates, and RevPAR levels.

Historical Supply and Demand Trends (STR) – San Antonio MSA

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Change	Average Rate	Change	RevPAR	Change
1997	6,110,207	—	9,862,519	—	61.95 %	—	$77.79	—	$48.19	—
1998	6,517,397	6.7	10,161,996	3.0	64.14	3.5	79.79	2.6	51.17	6.2
1999	6,684,153	2.6	10,530,876	3.6	63.47	(1.0)	80.56	1.0	51.13	(0.1)
2000	7,010,841	4.9	10,946,958	4.0	64.04	0.9	83.56	3.7	53.52	4.7
2001	6,908,407	(1.5)	11,151,982	1.9	61.95	(3.3)	85.05	1.8	52.68	(1.6)
2002	7,115,779	3.0	11,338,572	1.7	62.76	1.3	86.29	1.5	54.15	2.8
2003	7,280,704	2.3	11,615,078	2.4	62.68	(0.1)	83.40	(3.4)	52.28	(3.5)
Average Annual Compounded Chagne: 1997-2003		2.6 %		2.4 %		0.2 %		1.0 %		1.2 %

Source: Smith Travel Research

This data again reflects the stability in the overall market, which generated almost 7,300,000 room nights in 2003 – the greatest level on recent record. Although the MSA experienced an average rate decline in 2003, RevPAR remained above $52.00, better than the 1997 through 1999 level.

Historical Supply and Demand Data

Smith Travel Research (STR) is an independent research firm which compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provides the best indication of aggregate growth or decline in existing supply and demand, and thus it has been considered in our analysis.

The selected competitive downtown hotel supply is listed in the following table.

Downtown San Antonio Supply

Property	Number of Rooms
Marriott Rivercenter	1,001
Marriott Riverwalk	512
Hyatt Regency	632
Westin Riverwalk	473
Hilton Palacio Del Rio	481
Emily Morgan Hotel	177
Sheraton Hotel Gunter	322
Wyndham Grand St. Anthony	352
Holiday Inn Riverwalk	313
Preferred La Mansion Del Rio	337
Homewood Suites Riverwalk	146
Menger Hotel	320
Adam's Mark	410
Four Points Riverwalk North	324
Holiday Inn Crockett	204
Marriott Plaza San Antonio	252
Totals/Averages	6,256

Of these hotels, the subject property is expected to compete primarily with the larger, group-oriented hotels.

Historical Supply and Demand Trends (STR)

	1998	1999	2000	2001	2002	2003	Year-to-Date Through February 2003	Year-to-Date Through February 2004	Average Annual Compounded Change: 1998-2003
Average Daily Room Count	5,362	5,448	5,846	5,846	5,846	5,846	5,846	5,846	
Available Room Nights	1,957,130	1,988,678	2,133,790	2,133,790	2,133,790	2,133,790	344,914	344,914	
Change	—	1.6 %	7.3 %	0.0 %	0.0 %	0.0 %	—	0.0 %	1.7 %
Occupied Room Nights	1,472,627	1,445,492	1,584,612	1,509,190	1,587,431	1,554,287	236,231	241,089	
Change	—	(1.8) %	9.6 %	(4.8) %	5.2 %	(2.1) %	—	2.1 %	1.1 %
Occupancy	75.2 %	72.7 %	74.3 %	70.7 %	74.4 %	72.8 %	68.5 %	69.9 %	
Change	—	(3.4) %	2.2 %	(4.8) %	5.2 %	(2.1) %	—	2.1 %	(0.6) %
Average Rate	$129.69	$130.44	$134.06	$137.14	$139.63	$131.24	$136.53	$133.34	
Change	—	0.6 %	2.8 %	2.3 %	1.8 %	(6.0) %	—	(2.3) %	0.2 %
RevPAR	$97.58	$94.81	$99.56	$97.00	$103.88	$95.60	$93.51	$93.21	
Change	—	(2.8) %	5.0 %	(2.6) %	7.1 %	(8.0) %	—	(0.3) %	(0.4) %

Source: Smith Travel Research

San Antonio is a premier convention and vacation destination within Texas. The city is easy to access from the state's major population centers in Houston, Austin, and Dallas/Fort Worth, and also benefits from the presence of its adequate airport facility. The downtown district's convention and tourist friendly environment generates considerable levels of demand – much of this demand prefers a Riverwalk location first and foremost – but the lack of supply along the Riverwalk has prompted hotels on the periphery the Riverwalk to benefit from considerable levels of overflow demand. Additionally, this dynamic has prompted additions to supply throughout various product segments and has allowed considerable new hotel supply to be easily absorbed during the last two decades.

The following table illustrates monthly occupancy trends.

Monthly Occupancy Trends (STR)

Month	1998	1999	2000	2001	2002	2003	YTD January 2003	YTD January 2004
January	67.5 %	63.8 %	66.4 %	58.6 %	64.0 %	61.8 %	61.8 %	63.1 %
February	83.0	81.5	83.1	79.4	81.8	75.9	75.9	77.4
March	84.9	83.7	84.9	89.0	87.8	83.8	—	—
April	81.9	82.3	80.2	73.8	81.8	76.1	—	—
May	81.9	79.0	72.4	69.5	81.9	76.3	—	—
June	74.0	73.4	76.0	81.1	79.0	83.0	—	—
July	75.9	72.7	78.6	69.8	74.1	78.7	—	—
August	71.5	64.2	69.2	71.7	72.1	78.3	—	—
September	73.4	72.5	73.5	53.1	67.8	62.1	—	—
October	80.5	80.8	73.5	74.3	74.8	69.3	—	—
November	69.0	63.4	71.5	66.1	66.3	70.6	—	—
December	60.0	58.0	62.7	63.0	61.9	58.5	—	—
Annual Occupancy	75.2 %	72.7 %	74.3 %	70.7 %	74.4 %	72.8 %	—	—
YTD January	74.8 %	72.2 %	74.3 %	68.5 %	72.4 %	68.5 %	68.5 %	69.9 %

Source: Smith Travel Research

Overall occupancy within this market has remained very stable throughout most of the trend, with occupancy exceeding 70% during each year. Although the terrorist attacks of 2001 prompted a roughly two point drop in occupancy during this year, the market quickly bounced back in 2002 and remained strong throughout 2003; according to representatives in the market, pre-marketing and booking efforts for the city and the convention center prior to 2001 for 2002 sustained the downtown area in 2001, allowing the market to realize growth in 2002. The popularity of the market indicates a near-capacity situation in February through August. In the spring months, heightened mid-week convention demand supplements tourist-driven weekends. October is another convention-driven month. Off-season months include January, September, and December.

These occupancy trends and our market interviews confirmed that new supply has generally been easily absorbed in downtown San Antonio, particularly new supply located along the highly popular Riverwalk. However, vast supply additions among various products in recent years, the aggressive attitude toward absorption of continued supply expansion is reportedly waning. The following table illustrates monthly average rate trends.

Monthly Average Rate Trends (STR)

							YTD January	
Month	1998	1999	2000	2001	2002	2003	2003	2004
January	$120.28	$128.43	$129.35	$130.81	$128.83	$129.29	$129.29	$127.55
February	134.97	136.80	143.54	147.13	154.73	143.06	143.06	138.58
March	144.32	142.68	144.68	157.60	161.77	150.74	—	—
April	140.25	139.05	145.45	144.55	156.03	146.01	—	—
May	126.49	136.50	135.27	136.92	137.89	129.27	—	—
June	122.99	118.79	131.45	145.12	135.73	131.04	—	—
July	119.06	113.66	115.85	116.84	119.66	112.32	—	—
August	114.14	111.12	113.87	118.62	111.54	112.76	—	—
September	136.47	136.64	134.39	132.77	143.92	122.14	—	—
October	143.99	141.07	143.31	149.30	152.30	140.72	—	—
November	127.89	128.95	139.20	129.69	136.60	130.33	—	—
December	118.12	123.64	129.07	125.04	127.47	125.16	—	—
Annual Average Rate	$129.69	$130.44	$134.06	$137.14	$139.63	$131.24	—	—
YTD January	$128.01	$132.91	$136.88	$139.79	$142.70	$136.53	$136.53	$133.34

Source: Smith Travel Research

Average rates grew through 2000, due to the same dynamics supporting occupancy. However, rates declined in 2003, as hotels discounted rooms to stay competitive. Moreover, heightened government/military-related demand present in San Antonio during the Middle East war effort kept downward pressure on room rates on a city-wide basis. Additionally, it is assumed that increased competition from a regional convention demand standpoint also reportedly played a role in rate discounting in late 2003 and so far in 2004; various groups are rumored to be departing from San Antonio to try new convention and/or convention hotel facilities Austin, Houston, and the Gaylord Texan in Grapevine. Average rates are on track to realize another decline in 2004 due to similar market characteristics.

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Although a market may have various segments, the three primary classifications occurring in most areas are commercial, meeting and group, and leisure.

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected. Lodging demand in the local area is generated primarily by the following market segments.

Segment 1	Commercial (Includes Government)
Segment 2	Meeting and Group
Segment 3	Leisure

Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the base year distribution of accommodated room night demand was as follows. This data reflects all primary and secondary hotels noted in chapter six of our report – thus, the demand total is notably higher than the demand levels illustrated in the previous STR data.

Accommodated Room Night Demand

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	120,681	8 %
Meeting and Group	859,670	58
Leisure	514,409	34
Total	1,494,760	100 %

The market is predominately meeting and group in nature, with this segment representing roughly 58% of the accommodated demand. The remaining roughly half is largely leisure in nature, at 34%, with the remaining demand commercial in nature.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room night demand. These growth rates represent base demand growth independent of demand that would be expected to be induced by the introduction of the new headquarters hotel.

Commercial Segment

The commercial segment consists of individual businesspeople who are visiting various firms in the subject property's market. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Commercial demand is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers, high-volume corporate accounts, and military per diem. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities. High-volume corporate accounts are generated by local companies; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as “preferred” accommodations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced.

Most of the area’s commercial demand generators are located in the northwestern portion of the downtown district or near the outer highway loops. The last significant company to relocate to downtown San Antonio was Southwestern Bell, which opened its offices in 1994. While the Air Force Bases and the Medical Center are large generators of commercial demand in San Antonio in general, neither is located in downtown San Antonio. The city and county government centers are located within a short distance of the subject site; however, these offices reportedly generate a minimal amount of hotel demand.

All of the economic and demographic data presented earlier have some influence on commercial lodging demand; the trends that have the most direct correlation are changes in FIRE, service, wholesale trade, and total employment; occupied office space; and air passenger counts. Considering these historical trends and our anticipation that the downtown commercial market will remain stable in 2006 through 2008, we project a 0.5% growth in 2004, 1.0% in 2005, 1.5% growth in 2006 and 2007, before stabilizing at 1.0% and 0.5% in 2008 and 2009.

Meeting & Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Because of vacations, the summer months represent the slowest period for this market segment; winter demand varies. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERF (social, military, educational, religious, and fraternal) groups.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel. In the subject property's market, most corporate group activity is generated by the same major employers that contribute high-volume corporate accounts. This demand may take the form of training programs, sales meetings, division conferences, and similar events with a business purpose. Corporate groups generally meet during the work week, thus generating lodging demand on Monday through Thursday nights. The average length of stay is two to four days, although training groups may stay six nights or more. Double-occupancy rates in this category typically range from 1.0 to 1.5.

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

The SMERF market consists of groups that are social, military, educational, religious, or fraternal in nature. Examples include family or military reunions, youth groups, and fraternal organizations such as the Knights of Columbus. These groups are extremely budget conscious, and have a strong preference for weekend and summer meeting times, when rates are generally lowest. Typically, groups such as this have a high double-occupancy rate of 2.0 to 2.5, and the length of stay is relatively short (one to three nights). Most hotel operators use this type of demand to bolster occupancy during off-peak times of the month and year, when other demand sources are limited.

In the downtown San Antonio market, the meeting and group segment can be divided into two principal categories: conventions and in-house meetings. Conventions consist of larger groups that typically use the facilities of San Antonio's convention center. These groups are most often solicited by the Convention and Visitors Bureau, and typically house their attendees in multiple hotels within the downtown area. Because of their size, many of these groups book well in advance, with a booking lead time of one to five years. According to the CVB officials, the booking lead-time has recently become shorter, which makes it more difficult to project the number of conventions in future years. The in-house meetings are generally smaller in size, and can be accommodated by the meeting space in one of the local hotels. In some instances, the group may be large enough to require additional guestroom inventory at other local hotels. The in-house meetings are booked by the hotels, based on their own sales and marketing efforts or in response to leads generated by the CVB. These groups are generally much shorter-term in nature; the advance-booking pattern for most of these groups ranges from three to twelve months, although some have a longer time frame.

Future meeting and group demand is closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that meetings and similar events are booked in advance, and thus growth in this segment tends to lag slightly behind increases in commercial demand.

In projecting meeting and group demand in the subject property's market, we have considered all of the data sources applicable to the commercial segment, as well as trends in convention activity and leisure travel. Based on the current advance bookings reported by the CVB, and the current economic situation, we forecast meeting and group demand to decrease at a rate of 2.0% in 2004, and rebound with growth rates of 2.0% in 2005, 2.5% in 2006 and 2007, and 1.5% and 1.0% in 2008 and 2009, respectively, before moderating to 0.5% growth in 2010.

This base growth is in addition to the induced demand that is expected to be obtained by the opening of the proposed headquarters hotel. This induced demand will be discussed in greater detail later in our report.

Leisure Segment

The leisure market segment consists of individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods are negatively correlated with commercial visitation, underscoring the stabilizing effect of capturing weekend and summer tourist travel. The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room.

Leisure travelers tend to be the most price-sensitive segment of the lodging market. They may prefer low-rise accommodations where parking is convenient to the rooms, and they often select accommodations that include complimentary amenities such as continental breakfast. Ease of highway access and proximity to tourist attractions and retail centers are important locational considerations. Leisure demand in the subject property's market is generated by the sites and attractions described earlier in this report, including the Riverwalk, the Alamo, Seaworld, and Six Flags Fiesta Texas.

Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income often have a strong correlation to non-commercial visitation. Of the economic and demographic data presented earlier in this report, trends in retail sales, retail sector employment, total employment, and air traffic counts tend to have the strongest influence on leisure demand. Based on our analysis of the market, we expect leisure demand to increase at a rate of 1.0% in 2004, 1.5% in 2005 and 2006, and 1.0% in 2007, 2008, and 2009, respectively before moderating to 0.5% growth by 2010.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, several segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following annual market segment growth rates.

Annual Market Segment Growth Rates

	Annual Growth Rate								
Market Segment	2004	2005	2006	2007	2008	2009	2010	2011	2012
Commercial	0.5 %	1.0 %	1.5 %	1.5 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %
Meeting and Group	-2.0	2.0	2.5	2.5	1.5	1.0	0.5	0.5	0.5
Leisure	1.0	1.5	1.5	1.0	1.0	1.0	0.5	0.5	0.5
Base Demand Growth	-0.8 %	1.7 %	2.1 %	1.9 %	1.3 %	1.0 %	0.5 %	0.5 %	0.5 %

These growth rates will be used in subsequent sections of this report to forecast changes in lodging demand. Again, we note that these growth rates represent change in base year demand, and do not include additional demand expected to be induced by the introduction of the proposed headquarters hotel. This induced demand is discussed in Chapter Eight of our report.

5. Overview of the United States Meetings Market

Meetings represent an important source of income for hotels. These events are generally planned for ten or more people, depending on the need of the group and the capacity of the hotel's function space or nearby convention center. Meetings can be classified into many different categories, such as corporate, association, and SMERF; SMERF is an acronym for meetings that are social, military, educational, religious, or fraternal in purpose. This national trends overview will focus on the corporate and association meetings categories.

Meetings and Conventions Magazine publishes a bi-annual report on the meetings industry, named the *Meetings Market Report*. This well-respected study has been published since 1974, and is a compilation of reports and opinions of meeting planners. We have illustrated samples of data from this report in this overview. The latest report was published in August of 2002, which includes mainly 2001 data. The next report will be published in August 2004, which will cover 2003 data.

The following table provides an overview of the number of meetings, number of attendees, and dollars of expenditures from 1985 through 2001.

Summary of National Corporate, Convention, and Association Meetings Market

	Total Number of Meetings			
Year	Corporate	Convention	Association	Total
1985	706,100	12,200	185,400	903,700
1987	807,200	12,700	181,700	1,001,600
1989	866,800	12,600	186,600	1,066,000
1991	806,200	10,200	215,000	1,031,400
1993	801,300	11,800	206,500	1,019,600
1995	797,100	10,900	175,600	983,600
1997	783,900	11,300	189,500	984,700
1999	835,700	11,600	174,200	1,021,500
2001	844,100	11,800	177,700	1,033,600

	Total Number of Attendees			
Year	Corporate	Convention	Association	Total
1985	39,800,000	13,500,000	18,200,000	71,500,000
1987	47,300,000	10,700,000	16,300,000	74,300,000
1989	58,400,000	13,600,000	21,700,000	93,700,000
1991	49,600,000	8,600,000	22,600,000	80,800,000
1993	55,100,000	10,700,000	18,700,000	84,500,000
1995	49,300,000	13,000,000	15,100,000	77,400,000
1997	49,900,000	11,700,000	17,900,000	79,500,000
1999	51,111,111	12,188,889	15,600,000	78,900,000
2001	51,500,000	12,500,000	15,900,000	79,900,000

	Total Expenditures (In Billions)			
Year	Corporate	Convention	Association	Total
1985	7.5	12.7	11.2	31.4
1987	7.1	11.8	10.0	28.9
1989	9.7	15.0	14.9	39.6
1991	8.7	11.0	15.3	35.0
1993	10.6	15.5	14.3	40.4
1995	8.6	16.8	12.0	37.4
1997	10.8	16.7	14.3	41.8
1999	10.2	16.3	13.7	40.2
2001	10.3	16.6	13.9	40.9

Sources: 1996, 2000, & 2002 Meetings Market Reports,
Meetings & Conventions Magazine

In this illustrated trend, the total number of meetings peaked first in 1989 at just over one million. By 1991, the quantity of meetings began to decline until a turning point in the mid 1990s. Through its decline and recovery, the number of meetings has closely bracketed the one million mark throughout the last 16 years. The number of corporate meetings was near its high in 2001, at over 840,000 events. Despite the economic turmoil of 2001 and cancellations caused by the terrorist attacks of September 11, 2001, this year generated corporate meetings activity only surpassed in the illustrated trend previously in 1989. However, we note that while data for 2000 is not tracked, meeting trends would have likely significantly surpassed 1999 trends, as the economy peaked in this year and millennium related travel and meetings were at an all-time high. Also, were 2000 data shown, statistics for 2001 would have likely shown a decline from activity levels in this year.

The number of conventions continued to bracket the 12,000-event mark, showing continued, gradual increases since 1995; again, the likely peak experienced in 2000 is not tracked. Non-convention association meetings showed some improvement as well, to almost 178,000 events, but remain off the event levels seen in much of the historical data.

Meeting attendance was also on the rise in 2001, continuing to show slow and steady growth and remaining in the high 70-million range. Overall attendance is still off of the high years of 1989, 1991, and 1993. Expenditures showed similar stability, bracketing the $41.0 billion mark, which it has remained near since 1997.

Corporate Meetings

Corporate meetings consist of an integral component of the convention segment, and its attendees consist of over two thirds of all meeting, group, and convention attendees. Corporate groups tend to have a low double occupancy of 1.1 to 1.5, while social groups are likely to have somewhat higher double occupancy rates ranging from 1.5 to 1.9.

Corporate groups generally meet during the workweek, thus generating lodging demand on Monday through Thursday nights. The average length of stay for typical meetings and conventions ranges from two to three days. According to the *2002 Meetings Market Report*, the average duration of a corporate meeting is 2.7 days, with a six-month planning window. Feeder markets are an important factor influencing corporate meeting demand. Generally, facilities that attract travelers from distant areas are characterized by greater room night demand and longer lengths of stay than those destinations that draw a more local clientele.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and they often sponsor banquets and other events that generate revenue for the host hotel.

According to the 2002 Meetings Market Report, 53% of corporate expenditures went to the host hotel, with 30 out of the 53 points allocated to hotel rooms and 23 points allocated to food and beverage costs. The remaining 47% is spent on such areas as air transportation, speakers, entertainment, AV equipment, ground transportation, and third-party fees.

The following table illustrates a breakdown of corporate meeting purpose by number of meetings and number of attendees.

Number of Meetings and Attendees by Type of Corporate Meeting

Type of Corporate Meeting	Number in Past Year	% of Total	Attendance in Past Year	% of Total
Sales and Marketing Meetings	177,300	21 %	5,665,000	11 %
Training and Educational Seminars	253,200	30	15,965,000	31
Management Meetings	151,900	18	5,150,000	10
Professional and Technical Meetings	76,000	9	10,815,000	21
New Product Introductions	59,100	7	5,665,000	11
Group Incentive Meetings	59,100	7	5,665,000	11
Individual Incentive Meetings	42,200	5	515,000	1
Stockholder Meetings	16,900	2	1,030,000	2
Other Meetings	8,400	1	1,030,000	2
Total Corporate Meetings	844,100	100 %	51,500,000	100 %

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the previous data indicates, the most important corporate meetings activity is for training and education, while the professional and technical meeting category shows the second highest attendance level.

The following table illustrates the percentage of corporate meeting planners that utilize various types of facilities during a given year. Since the majority of meeting planners organize more than one meeting per year, the percentages will sum to greater than 100%.

Types of Hotels Used by Corporate Meeting Planners

Types of Hotels Used	Corporate Meetings
Downtown Hotels	74 %
Resort Hotels (not including golf resorts)	50
Convention Centers	47
Suburban Hotels	54
Suite Hotels	27
Airport Hotels	39
Golf Resorts	36
Gaming Facilities	19
Residential Conference Centers	15
Non-residential Conference Centers	12
Cruise Ships	10

Source: 2002 Meetings Market Report,
Meetings and Conventions Magazine

Downtown hotels, proximate to a city's central business district, are most likely to be recipients of corporate meeting demand, primarily due to the large percentage of businesses located in midtown areas. Suburban hotels are the second most used hotel type.

This table illustrates the opportunity San Antonio has for capturing this group segment. As noted, 74% of meeting planners use downtown hotels and 47% use convention centers.

The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

Factors in Choosing a Corporate Meeting Location and Facility

Top Factors When Choosing Location	Corporate Meetings (except Incentive Trips)	Group Incentive Trips
Availability of Suitable Hotels	75 %	60 %
Affordability of Destination	68	52
Safety and Security of Destination	57	70
Ease of Transportation	57	52
Distance Traveled by Attendees	49	37
Transportation Costs	49	45
Clean and Unspoiled Environment	35	56
Climate	30	78
Mandated by Corporate Policy	26	26
Availability of Recreational Facilities	24	83
Sightseeing, Cultural Events, Attractions	17	78
Glamorous/Popular Image of Location	13	67

Top Factors When Choosing Hotel Within Location	Corporate Meetings (except Incentive Trips)	Group Incentive Trips
Cost of Hotel or Meeting Facility	75 %	65 %
Negotiable Food, Beverage, and Room Rates	77	77
Number, Size, and Quality of Meeting Rooms	77	47
Quality of Food Service	69	86
Number, Size, and Quality of Sleeping Rooms	63	81
Efficiency of Billing Procedures	58	70
Availability of Meeting Support Services	55	29
Efficiency of Check-in/Check-out Procedures	50	70
Assignment of One Staff Person To Handle Meeting	55	66
Previous Experience in Dealing with Facility and Staff	51	50
Convenience to Other Modes of Transportation	28	37
Proximity to Airport	26	28
Meeting Rooms with Multiple High Speed Lines/Outlets	44	33
Availability of Exhibit Space	56	15
Number, Size, and Quality of Suites	24	59
Proximity to Shopping, Restaurants, Off-site Entertainment	18	63
Provision of Special Meeting Services	18	43
Other On-site Recreational Facilities	15	68
On-site Golf Course	11	50

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the preceding table indicates, location factors cited as most important include the availability of suitable hotels, affordability, safety, and ease of transportation. A balance therefore must exist between what constitutes a suitable yet affordable hotel.

We note that corporate planners reported an average room rate of $150.00 for hotel accommodations, but this number is somewhat skewed by higher-priced destinations (37% of respondents noted accepting rates of $151.00 or more). Approximately 77% of respondents accepted room rates more than $100.00, while 23% accepted room rates below $100.00. Given the current average rate level of the downtown San Antonio market (discussed in the following chapters), San Antonio is very well suited for capturing a majority of demand from the $100 to $150 price point range.

Despite the economic downturn of late 2000 into 2001, approximately 48% of meeting planners in the latest survey reported the 2001 meeting budgets remained unchanged versus 2000 budget levels. Of the remaining participants, 26% noted an increase in the budget, and similarly, 26% noted a decrease. Budget anticipations for 2002 in this survey reflect a slight shift towards a decline: 47% of budgets are expected to remain unchanged, 26% of budgets are expected to increase, and 27% of budgets are expected to decrease.

One of the after-affects of the terrorist attacks of September 11, 2001, is that more corporate meetings are being planned closer to home. Fewer meetings are being planned outside of the United States (36% in 2001 vs. 33% in 1999); and the next-published trends available from this source illustrating 2003 data (available in 2004) are expected to show further proportion of U.S.-based meetings.

Association Meetings

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups. This is particularly true when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

While an event may span three to four days, the majority of delegates may mainly seek accommodations for one or two nights during the event. Therefore, event attendance typically mimics a curve, with fewer room nights booked the first and last nights of the event, and more rooms required during the middle. According to the *2002 Meetings Market Report*, the average duration of an association meeting is 2.0 days, with a nine-month planning window (the planning window for a corporate meeting was a shorter six months).

According to the *2002 Meetings Market Report*, 57% of corporate expenditures went to the host hotel (versus 53% for corporate meetings), with 31 out of the 57 points allocated to food and beverage costs (versus 23 points for corporate meetings) and 26 points allocated to hotel costs (versus 30 points for corporate meetings). Hence, associations are apt to spend modestly more on food and beverage and less on hotel rooms, when compared to corporate groups. The remaining 43% is spent on remaining meeting needs. The following table illustrates a breakdown of association meeting purpose by number of meetings and number of attendees.

Number of Meetings and Attendees by Type of Association Meeting

Type of Association Meeting	Number in Past Year	% of Total	Attendance in Past Year	% of Total
Training and Educational Seminars	65,700	37 %	6,519,000	41 %
Board Meetings	33,800	19	2,703,000	17
Professional and Technical Meetings	30,200	17	2,862,000	18
Regional/Local Chapter Meetings	30,200	17	1,113,000	7
Other Off-Premises Meetings	17,800	10	2,703,000	17
Total Association Meetings	177,700	100 %	15,900,000	100 %

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the previous data shows and as was the case with corporate meetings, the most important association meetings activity is for training and education, while the professional and technical meeting category shows the second highest attendance level (board meetings and other off-premises meetings are tied for a close third in attendance).

The following table illustrates the percentage of association meeting planners that utilize various types of facilities during a given year; this data is illustrated for conventions and non-convention association meetings. Since the majority of meeting planners organize more than one meeting per year, the percentages will sum to greater than 100%.

Types of Hotels Used by Association Meeting Planners

Types of Hotels Used	Conventions	Association Meetings
Downtown Hotels	64 %	71 %
Resort Hotels (not including golf resorts)	15	35
Suburban Hotels	17	47
Suite Hotels	14	12
Airport Hotels	10	29
Golf Resorts	10	20
Gaming Facilities	4	6
Residential Conference Centers	2	11
Non-residential Conference Centers	1	7
Cruise Ships	-	2
Other Facilities	4	35
Did Not Require Hotels	3	3

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

Therefore, considerable potential exists for the San Antonio downtown destination to capture this type of demand.

The following table summarizes the factors cited as important by meeting planners when choosing a destination and a host hotel within that destination.

Factors in Choosing an Association Meeting Location and Facility

Top Factors When Choosing Location	Association Meetings	Conventions
Availability of Suitable Hotels	70 %	80 %
Affordability of Destination	76	75
Safety and Security of Destination	45	51
Ease of Transportation	50	50
Transportation Costs	43	39
Distance Traveled by Attendees	54	49
Clean and Unspoiled Environment	28	31
Climate	19	23
Availability of Recreational Facilities	16	19
Sightseeing, Cultural Events, Attractions	17	19
Mandated by By-Laws	23	26
Glamorous/Popular Image of Location	11	11

Top Factors When Choosing Hotel Within Location	Association Meetings	Conventions
Number, Size, and Quality of Meeting Rooms	71 %	87 %
Negotiable Food, Beverage, and Room Rates	71	80
Cost of Hotel or Meeting Facility	76	80
Quality of Food Service	62	71
Number, Size, and Quality of Sleeping Rooms	54	71
Efficiency of Billing Procedures	44	48
Availability of Meeting Support Services	47	50
Assignment of One Staff Person To Handle Meeting	43	52
Efficiency of Check-in/Check-out Procedures	40	44
Availability of Exhibit Space	21	44
Previous Experience in Dealing with Facility and Staff	39	43
Proximity to Shopping, Restaurants, Off-site Entertainment	16	24
Number, Size, and Quality of Suites	23	21
Proximity to Airport	26	21
Convenience to Other Modes of Transportation	25	22
Provision of Special Meeting Services	17	16
Meeting Rooms with Multiple High Speed Lines/Outlets	22	21
Fax Modem Hook-Ups in Sleeping Rooms	16	15
Other On-site Recreational Facilities	10	9
On-site Golf Course	10	9

Source: 2002 Meetings Market Report, *Meetings and Conventions Magazine*

As the preceding table indicates, location factors cited as most important include the availability of suitable hotels, affordability, safety, and ease of transportation. Association planners reported an average room rate of $133.00 for hotel accommodations, roughly $17.00 lower than the corporate mark of $150.00. This price point is again on-target for the current downtown San Antonio market.

Again contrasting the economic downturn of late 2000 into 2001, approximately 52% of association meeting planners in the latest survey reported the 2001 meeting budgets remained unchanged versus 2000 budget levels. Of the remaining participants, a high 34% noted an increase in the budget, and only 14% noted a decrease. Budget anticipations for 2002 in this survey suggest continued expansion: 48% of budgets are expected to remain unchanged, 36% of budgets are expected to increase, and 16% of budgets are expected to decrease.

As shown previously, the availability of hotel rooms in a city is an important criterion when event planners are making meeting location decisions. The Salt Lake Convention and Visitors Bureau publishes a biannual survey on available hotel supply in various cities throughout the United States. We have illustrated the following selection of data from this report.

Total Hotel and Motel Rooms In The Community (Including Committable to Convention and Not Committable)

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
Orlando	3	101,833	Las Vegas	1	124,200
Atlanta	4	85,000	Los Angeles	2	110,147
Chicago	5	79,234	Dallas	9	62,000
New York	6	68,900	Phoenix	10	51,476
Washington, DC	7	64,935	San Diego	11	50,000
Miami	8	63,000	Anaheim	12	48,000
Detroit	15	34,603	Houston	13	46,000
New Orleans	16	33,022	Denver	14	36,246
Nashville	17	31,642	San Francisco	18	31,101
St. Louis	19	31,000	Honolulu	20	30,641
Minneapolis	23	28,000	Seattle	21	30,000
Philadelphia	25	26,000	Reno	22	28,093
Cincinnati	27	23,000	San Antonio	24	27,000
Baltimore	28	21,120	Kansas City	26	25,200
Indianapolis	29	20,788	Salt Lake	35	17,549
Columbus	30	20,000	Portland, OR	36	17,500
Cleveland	31	19,500	Tucson	38	15,100
Charlotte	32	19,304	Albuquerque	39	15,000
Memphis	33	19,000	Palm Springs	40	15,000
Tampa	34	17,738	Oklahoma City	46	13,000
Boston	37	17,400	Fort Worth	47	11,000
Louisville	41	14,232	Corpus Christi	48	9,018
Birmingham	42	14,000	Sacramento	49	8,500
Pittsburgh	43	14,000	Des Moines	50	8,050
Raleigh	44	13,189	El Paso	52	7,900
Milwaukee	45	13,000	San Jose	55	7,312
Little Rock	51	8,000	Arlington, TX	56	6,453
Hartford	53	7,600	Anchorage	57	6,109
Lexington	54	7,488	Long Beach	59	5,000
Norfolk	58	5,205			
Opryland Nashville	60	4,476			

Source: Salt Lake Convention and Visitors Bureau

Committable Hotel and Motel Rooms In TheCommunity

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
Orlando	2	80,000	Las Vegas	1	124,200
Chicago	3	60,000	Los Angeles	4	55,000
Atlanta	5	45,000	San Diego	6	33,000
New York	10	25,000	Phoenix	7	29,000
New Orleans	11	20,000	Houston	8	26,000
Minneapolis	13	18,000	Anaheim	9	25,000
Tampa	15	17,000	San Francisco	12	19,500
Philadelphia	16	17,000	Dallas	14	17,509
Charlotte	17	15,000	Seattle	18	15,000
Miami	19	14,000	Albuquerque	23	12,000
Nashville	20	12,830	Denver	24	12,000
Columbus	21	12,500	Kansas City	25	11,400
Indianapolis	22	12,000	San Antonio	26	10,000
Memphis	28	10,000	Palm Springs	27	10,000
Detroit	29	10,000	Tucson	30	9,500
St. Louis	31	9,200	Honolulu	32	9,000
Louisville	33	9,000	Salt Lake	35	8,854
Cincinnati	34	9,000	Portland, OR	37	8,000
Pittsburgh	36	8,500	Corpus Christi	39	6,000
Milwaukee	38	6,370	Oklahoma City	40	6,000
Cleveland	41	6,000	Anchorage	46	5,000
Boston	42	6,000	Sacramento	50	4,500
Birmingham	43	6,000	Des Moines	51	4,200
Baltimore	44	5,500	Long Beach	52	4,125
Washington, DC	46	5,000	Arlington, TX	53	3,000
Raleigh	47	5,000	Fort Worth	55	2,800
Little Rock	48	5,000	El Paso	56	2,700
Hartford	49	5,000	Reno	58	2,000
Lexington	54	3,000	San Jose	59	1,620
Norfolk	57	2,600			

Source: Salt Lake Convention and Visitors Bureau

Committable Hotel and Motel Rooms Within One Mile of the Convention Center

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
New York	3	17,000	San Francisco	1	19,500
New Orleans	4	16,548	Las Vegas	2	18,376
Orlando	5	10,900	Anaheim	7	10,000
Atlanta	6	10,000	Honolulu	8	9,000
Philadelphia	10	7,000	Seattle	9	7,500
Miami	13	5,300	San Antonio	11	6,317
Boston	14	5,000	San Diego	12	6,000
Washington, DC	15	5,000	Dallas	16	4,833
St. Louis	20	3,900	Los Angeles	17	4,768
Opryland Nashville	21	3,725	Salt Lake	18	4,220
Milwaukee	22	3,714	Portland, OR	19	4,000
Minnepolis	23	3,600	Denver	24	3,455
Indianapolis	25	3,315	Kansas City	29	2,800
Charlotte	26	3,088	Anchorage	30	2,800
Baltimore	27	3,000	Palm Springs	32	2,400
Detroit	28	2,906	Reno	35	2,054
Louisville	31	2,500	Long Beach	37	2,000
Pittsburgh	33	2,400	Sacramento	38	2,000
Cincinnati	34	2,100	Houston	40	1,910
Nashville	36	2,025	Phoenix	44	1,795
Columbus	39	2,000	Arlington, TX	45	1,500
Cleveland	41	1,800	Fort Worth	46	1,410
Memphis	42	1,800	Corpus Christi	50	1,200
Tampa	43	1,800	Des Moines	51	1,120
Birmingham	47	1,400	Albuquerque	52	1,058
Norfolk	48	1,388	Tucson	54	915
Hartford	49	1,300	San Jose	56	770
Little Rock	53	1,000	Oklahoma City	57	700
Chicago	55	800	El Paso	60	350
Lexington	58	650			
Raleigh	59	600			

Source: Salt Lake Convention and Visitors Bureau

Total Rooms of Three Largest Hotels Within One Mile of the Convention Center

Eastern Cities	Rank	Rooms	Western Cities	Rank	Rooms
New York	2	5,663	Las Vegas	1	9,346
New Orleans	4	5,215	Honolulu	3	5,627
Atlanta	6	4,300	San Francisco	5	4,614
Orlando	9	3,418	Anaheim	7	3,913
Opryland Nashville	10	3,402	Dallas	8	3,679
Boston	11	3,286	Los Angeles	13	3,075
Detroit	12	3,212	Long Beach	14	2,951
Philadelphia	15	2,668	San Diego	16	2,542
Washington, DC	17	2,541	Kansas City	18	2,455
Miami	19	2,420	Denver	21	2,348
St. Louis	20	2,380	Seattle	22	2,280
Baltimore	25	2,079	Salt Lake	23	2,140
Cincinnati	27	1,994	San Antonio	24	2,135
Minneapolis	28	1,932	Reno	26	2,054
Louisville	29	1,930	Houston	31	1,705
Pittsburgh	30	1,926	Anchorage	34	1,539
Indianapolis	32	1,685	Fort Worth	39	1,452
Milwaukee	33	1,541	Portland, OR	40	1,434
Tampa	35	1,535	Phoenix	41	1,404
Nashville	36	1,488	Sacramento	42	1,372
Columbus	37	1,475	San Jose	47	1,149
Charlotte	38	1,454	Palm Springs	48	1,100
Cleveland	43	1,361	Corpus Christi	49	1,020
Memphis	44	1,350	Arlington, TX	51	960
Birmingham	45	1,295	Des Moines	52	908
Norfolk	46	1,194	Albuquerque	53	900
Hartford	50	1,000	Oklahoma City	58	700
Lexington	54	807	Tucson	59	550
Little Rock	55	800	El Paso	60	477
Chicago	56	800			
Raleigh	57	753			

Source: Salt Lake Convention and Visitors Bureau

This data indicates that San Francisco (1), Las Vegas (2), New York (3), New Orleans (4), Orlando (5), Atlanta (6), Anaheim (7), Honolulu (8), Seattle (9), and Philadelphia (10) are able to commit the largest room total room blocks – within one mile of their center -- to convention center events in the United States. But once you look beyond the mile-limit and review the community wide committable-room rankings, Las Vegas and Orlando rise to the number one and two positions, respectively, with available, committable room counts well above the remainder of the survey cities. San Antonio ranks in the top 20 of each survey.

Meeting and Convention Timing and Seasonal Patterns

Nationwide, the meeting and convention segment of the market has exhibited a strong preference for planning events during the late spring/early summer and fall months, with October, November (the first three weeks), May, and June representing the strongest months. The table below depicts the breakdown of percentages for the favorability of planning meetings in each month throughout the year.

Frequency and Seasonality of Major Conventions

Frequency	Percentage
Every Other Year	5 %
Annually	75
Twice a Year	12
Four Times Per Year	3
Other	5
No Major Convention	11

Seasonality	Percentage
January	4 %
February	4
March	5
April	9
May	10
June	11
July	9
August	6
September	8
October	17
November	13
December	4

Source: 2002 Meetings Market Report,
Meetings and Conventions Magazine

As the table above indicates, summer months are popular to group business to a lesser degree, for lifestyle and vacation reasons. The summer months are oftentimes selected by those groups in need of a price discount, which generally occurs during this season. Association meetings typically display slightly different characteristics than commercial meetings. State and regional associations often hold their meetings during the summer season, contributing to the annual occupancies of lodging facilities with meeting space at a time when commercial activity and room rates may be at their lowest. This typically occurs in May through August. Association gatherings are generally larger than corporate meetings and utilize a convention center and require larger amounts of exhibition and/or meeting space.

6. Competition

An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities. To evaluate an area's competitive environment, the following steps should be taken:

- Identify the area's lodging facilities and determine which are expected to be directly and indirectly competitive with the proposed subject property.
- Determine whether additional hotel rooms, besides the proposed subject, will enter the market in the foreseeable future (net of attrition).
- Quantify the number of existing and proposed hotel rooms available in the market.
- Review the rate structure, occupancy levels, market orientation, facilities, and amenities of each competitor.

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of the area's hotels, as well as the comments of area hotel representatives, we have identified five properties that are expected to be primarily competitive with the proposed headquarters hotel. These primary competitors total almost 3,100 rooms.

Additional lodging facilities are judged to be only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primarily competitive supply, they are expected to compete with the subject property to some extent. The room count of the secondary aggregate supply has been weighted to reflect the degree to which the set competes with the proposed headquarters hotel; the aggregate weighted room count of the secondary competitors is roughly 2,400.

Primary Competitors

The following table summarizes the important operating characteristics of the primary competitors and the aggregate secondary competitors. Ranges are illustrated due to the confidentiality of the data; actual occupancy and average rate levels were used in our financial models. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data.

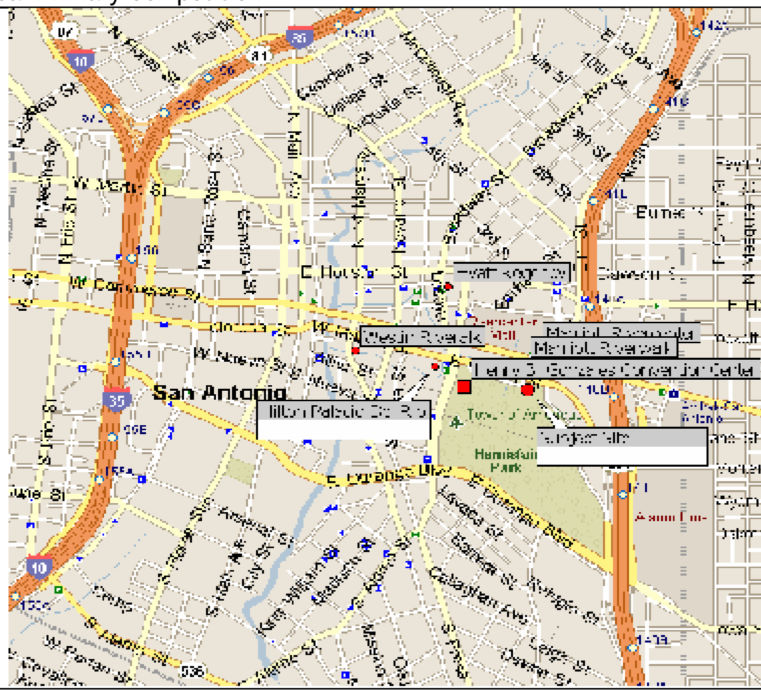
Primary Competitors and Aggregate Secondary Competitors

		Estimated Segmentation			Estimated 2002 *			Estimated 2003 *				
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Marriott Rivercenter	1,001	7 %	75 %	18 %	80-85 %	$150-$160	$130-$140	80-85 %	$150-$160	$120-$130	110-120 %	120-130 %
Marriott Riverwalk	512	7	75	18	80-85	150-160	120-130	80-85	140-150	110-120	110-120	120-130
Hyatt Regency	632	5	65	30	75-80	140-150	110-120	75-80	130-140	100-110	100-110	100-110
Westin Riverwalk	473	15	55	30	75-80	150-160	110-120	75-80	140-150	110-120	100-110	110-120
Hilton Palacio Del Rio	481	5	60	35	75-80	140-150	110-120	70-75	140-150	100-110	90-100	100-110
Sub-Totals/Averages	3,099	8 %	68 %	25 %	80 %	$152	$122	78 %	$145	$113	107 %	118 %
Weighted Secondary	2,394	9 %	43 %	48 %	66 %	$120	$79	66 %	$111	$74	91 %	78 %
Totals/Averages	5,493	8 %	58 %	34 %	74 %	$140	$103	73 %	$131	$95	100 %	100 %

* *Ranges are illustrated due to the public nature of this document.*

Our survey of the primarily competitive hotels in the downtown San Antonio lodging market shows a mixture of hotels affiliated with nationally recognized lodging chains as well as independently operated hotels.

Map of Local Primary Competition



Each future competitor was inspected and evaluated. Descriptions of our findings are presented on the following pages.

Marriott Rivercenter

The 1,001-room Marriott Rivercenter, which is often marketed as a headquarters hotel facility, along with the 512-room Marriott Riverwalk, is located one block from the convention center as well as the subject site. The Marriott Rivercenter originally opened in 1988 and remains a corporately-owned and operated facility together with the Marriott Riverwalk, which was originally constructed in the late 1970s.

Marriotts Rivercenter and Riverwalk

With ±60,000 square feet of on-site meeting space, the Marriott Rivercenter is often considered the premier meeting and convention destination hotel. In addition to its location within one block of the convention center, the property is attached with the upscale Rivercenter Mall and the Riverwalk, and is a short walk to the Alamo. This competitor offers among the largest amount of function space among the primary competitors to compliment the hotel's 915 guestrooms and 86 suites (totaling 1,001 guest units); additionally, the hotel features four food and beverage venues, retail space, and well-appointed guestroom amenities. Based on its location, amenities, and facilities, the Marriott Rivercenter accommodates a majority of meeting and convention-oriented (group) demand; this segment accounts for nearly 75% of the hotel's total occupancy. According to management representatives, of the meeting and group demand, roughly 60% comprises in-house groups while the remaining 40% is considered city-wide convention/group in nature.

This four-star competitor has undergone select guestroom and public space upgrades and renovations over the past four years; this allows the Marriott Rivercenter to remain in a highly competitive position within the market. Regional Marriott representatives noted preliminary expansion plans consisting of roughly 70,000 additional square feet of meeting space inclusive of a 40,000-square-foot ballroom. While plans are reportedly being pursued, details about the status and target completion of such a project were not available at the time of our visit. Together with its sister hotel, the Marriott Rivercenter realized the highest yield penetration level in the 2003 base year.

The subject property's room rate should trend very closely to these two properties.

Marriott Riverwalk

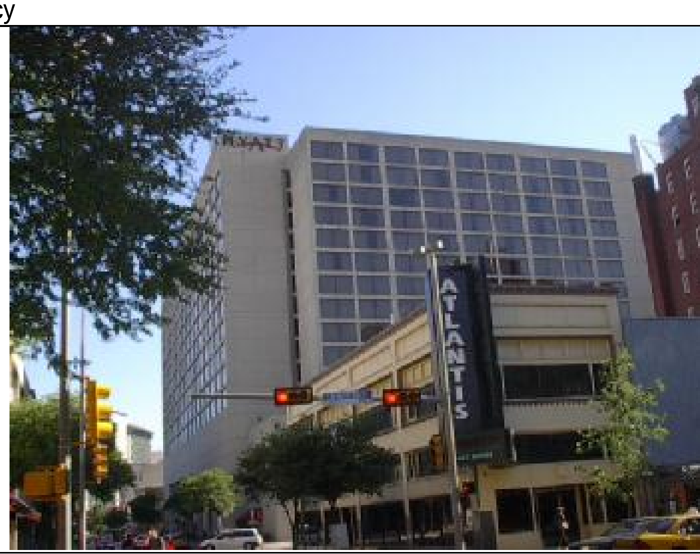
The 512-room Marriott Riverwalk is located between the convention center and the Marriott Rivercenter, adjacent to the Rivercenter Mall; as a result, this Marriott property is located directly north of the subject site. The property features roughly 12,000 square feet of meeting space; the ballroom at the hotel received recent renovations and upgrades within the past two years. This competitor houses several on-site food and beverage options in addition to those located across the street at the Marriott Rivercenter; the property also offers upgraded and modern guestroom amenities and facilities, consistent with upscale, full-service Marriott standards. The Marriott Riverwalk, which is the oldest of the two Marriott properties, was originally constructed in 1979 and has undergone numerous renovations to guestrooms and public areas throughout its existence. While the façade appears somewhat dated, the hotel's primary products are in very good condition and consistent with the upgraded facilities of the Marriott Rivercenter.

As noted in subsequent sections of this report, the Rivercenter and Riverwalk Marriott hotels are often marketed together as a convention headquarters facility offering ±1,500 guestrooms and over 70,000 square feet of function space between the two hotels. This allows the Marriott Riverwalk to maintain similar and competitive occupancy and average rate performance within the market compared to the Marriott Rivercenter; the hotel realizes a matched marketing mix and achieved similar, higher-than-market occupancy and yield penetration rates in the 2003 base year.

Hyatt Regency

The 632-unit Hyatt Regency is located directly on the Riverwalk and roughly two blocks from the Alamo. Along with the Marriott properties, the Hyatt has long-been considered a leader in the meeting and convention demand sector and is often a focal point for convention-related activity. The Hyatt Regency was originally constructed in 1981 and remains owned by a third-party group and operates under a management agreement with Hyatt Hotels and Resorts.

Hyatt Regency



Within recent years, street-level retail space in the hotel's adjacent parking structure was reconfigured into the Hyatt Conference Center. This allows the Hyatt to effectively market 40,000 square feet of flexible and diverse on-site meeting space to a variety of in-house meeting demand and group needs. According to hotel management, the property accommodates roughly 65% of meeting and group demand with nearly 100% of that demand generated by in-house meeting and group activity; flexible meeting space and function space configurations allow the hotel to efficiently book on-site meetings, therefore alleviating dependence on city-wide convention activity. Management also noted softer group activity in 2003 compared previous years which caused a shift in the hotel's market orientation; the Hyatt accommodated a higher level of transient (leisure and corporate) demand than years past in 2003.

The Hyatt Regency is in very good condition although the exterior and portions of the interior public space appear somewhat dated. The lobby was renovated within the past two years while the majority of the meeting space received renovations within the past 18 months. However, a somewhat deteriorating guestroom product left the property vulnerable to the market's new supply additions in recent years; this is apparent in this competitor's declining performance in recent years. While the property remains a successful competitor in the local market due to its more "self-sufficient" operation, average rate at the Hyatt declined by roughly $15.00 to $20.00 in 2003 compared to 2001 levels. In order to combat negative effects of continued new hotel room supply and inventory throughout the market, the Hyatt is embarking on a major guestroom renovation including a new, total soft and case goods renovation, bathroom upgrades, and corridor renovations. Rooms will reportedly be out of inventory starting in late May 2004 – the renovation will span generally the slower corporate and group summer season.

Westin Riverwalk

This 473-room competitor is located at 420 Market Street in the central Riverwalk area of San Antonio, roughly one-half mile west of the subject site. The 15-story property was constructed in 1999. The Westin appeared in very good condition upon inspection. The hotel features 433 large guestrooms and 40 suites. All rooms feature Westin's signature Heavenly Bed bedding package, dual-line telephones, turbo net high speed internet, over-sized marble-finished bathrooms, and complimentary Starbucks coffee.

Westin Riverwalk Hotel

In addition to guestrooms, the Westin features ten meeting rooms encompassing over 19,000 square feet of meeting and function space, including a 5,900-square-foot ballroom and a 3,100-square-foot junior ballroom. As a result of its physical plan attributes, the Westin accommodates a greater percentage of commercial (corporate transient) demand and slightly less meeting and group (in-house and city-wide convention) than the majority of the primary competitors. The property also features two restaurants, the Caliza Grille and El Cafeto, the El Rinco de Maria lounge, and a seasonal poolside bar. Along with these amenities, the hotel also offers an outdoor pool, a sauna, a fitness center, a sundry shop, a business center, and a concierge desk.

The hotel is able to capture one of the highest average room rates in the market due to its first class nature and Riverwalk location. The Westin generally enjoys success due to its prominence of the Riverwalk location, recent construction, and first-class product.

Hilton Palacio Del Rio

This 481-room competitor is located at 200 South Alamo Street, directly across the street from the convention center and roughly two blocks west of the subject site. The 21-story Hilton was constructed in 1968 and has been one of the city's leading hotels since its opening.

The Hilton appeared to be in very good condition upon inspection. The hotel features 471 guestrooms and 10 suites. All rooms feature private balconies, Spanish décor, Mexican onyx and brass fixtures, mesquite floors and white oak furnishings, and extensive guest amenities.

Hilton Palacio Del Rio

In addition to guestrooms, the Hilton features 25 meeting rooms with over 24,500 square feet of meeting and function space, including a 5,757-square-foot ballroom and a 4,635-square-foot junior ballroom. The property also features the Ibiza restaurant and bar and Durty Nelly's, an authentic Irish bar located on the Riverwalk. Along with these amenities, the Hilton features a fitness center, an outdoor pool, a whirlpool, a business center, and high speed internet in each room.

The hotel, with its prime Riverwalk location and close proximity to the convention center facility, is easily able to command competitive rates within the market. The Hilton's demand comprises primarily meeting and group demand, accounting for 60% of the hotel's overall demand; the remaining demand includes 35% leisure and 5% commercial. While the Hilton enjoys one of the most prominent locations along the heart of the Riverwalk, the property's somewhat dated and older physical limitations, largely in terms of in-house meeting capabilities, compromise the Hilton's occupancy performance in the market. In the 2003 base year, while the Hilton enjoyed an average rate near the market average, occupancy was among the lowest of the primary competitors resulting in an occupancy penetration level falling below 100%.

Aggregate Secondary Competitors

Twelve San Antonio hotels are expected to compete with the subject property on a secondary basis. Together, the aggregate secondary competitors achieved an overall weighted occupancy of roundly 66% at an average rate of roundly $111.00 yielding a rounded RevPAR of $74.00 in 2003. This recent operating data is indicated in the following table.

Secondary Competitor Data

		Estimated Segmentation					Estimated 2002 *			Estimated 2003 *		
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Total Competitive Level	Wghtd. Room Count	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR
Emily Morgan Hotel	177	3 %	30 %	67 %	40 %	71	65-70 %	$120-$130	$80-$90	65-70 %	$120-$130	$80-$90
Sheraton Hotel Gunter	322	5	45	50	80	258	60-65	100-110	60-70	65-70	90-100	60-70
Wyndham Grand St. Anthony	352	5	40	55	80	282	70-75	100-110	70-80	75-80	90-100	60-70
Holiday Inn Riverwalk	313	5	35	60	70	219	70-75	110-120	80-90	70-75	110-120	80-90
Preferred La Mansion Del Rio	337	5	40	55	80	270	75-80	170-180	120-130	70-75	170-180	120-130
Homewood Suites Riverwalk	146	15	35	50	50	73	75-80	110-120	90-100	75-80	110-120	90-100
Menger Hotel	320	5	45	50	60	192	65-70	110-120	70-80	65-70	110-120	70-80
Adam's Mark	410	15	50	35	90	369	55-60	120-130	70-80	60-65	100-110	60-70
Four Points Riverwalk North	324	10	55	35	90	292	50-55	80-90	40-50	50-55	70-80	40-50
Holiday Inn Crockett	204	5	30	65	70	143	65-70	90-100	60-70	55-60	80-90	40-50
Marriott Plaza San Antonio	252	15	55	30	90	227	75-80	130-140	100-110	70-75	120-130	90-100
Hotel Valencia	213	20	20	60	70	149	—	—	—	55-60	120-130	60-70
Totals/Averages	3,370	9 %	43 %	48 %	75 %	2,394	66 %	$120	$79	66 %	$111	$74

* *Ranges are illustrated due to the public nature of this document.*

Due to the large-scale, headquarters operation associated with the proposed subject property, a grouping of smaller, luxury, boutique as well as independent and historic properties are grouped and considered secondary competitors. These product offerings represent a cross-section of full-service, modified, full-service, and all-suite/extended-stay hotel products. Based on these characteristics, the secondary competitive grouping of hotels collectively accommodate considerably less meeting and group demand (city-wide convention as well as in-house meeting and group) compared to the primary competitors. In 2003, the marketing mix of the secondary aggregate supply posted roughly 43% meeting and group demand and roughly 48% leisure demand compared to the 69% meeting and group and 24% leisure orientation of the primary competitive set.

Due to product differences, market orientations, and a mix of locations, among other variables, the secondary competitors located in the downtown competitive environment have been weighted with competitive levels ranging from 40% to 90% with the proposed subject property. Depending on level of service and scope of facilities, the larger, more meeting-oriented secondary competitors are anticipated to be more competitive with the proposed subject property in the future while the smaller, boutique and/or historic, luxury hotels are expected to be less competitive with a proposed convention center headquarters hotel facility.

The following paragraphs briefly describe circumstances (foreseen changes and/or shifts) surrounding select downtown hotels grouped within the secondary aggregate supply.

- The 324-room Four Points by Sheraton, located north on the Riverwalk, roughly one mile from the subject site, is relatively dated and in fair condition. The hotel is owned by a group affiliated with Sterling Century Corporation and operated by Sterling Hospitality, Inc. out of Florida. Originally constructed as the El Tropicana, the hotel has been transformed into many facilities and brands throughout its history including DoubleTree, Holiday Inn; the property had operated as a Four Points for the past several years. Due to its vulnerability compared to new hotel inventory throughout the market, the property has suffered from eroding performance and is in-line to reportedly lose the Four Points brand affiliation. At the time of our inspection, management was unaware of a new franchise affiliation. However, as of May 2004, it is likely that the property will no longer be operated as a Four points.

- The Adam's Mark recently sold (early 2004); the facility will reportedly undergo various renovations to become affiliated with Intercontinental Hotel Group under the first-class, Crowne Plaza brand name. The property is located in the northwestern quadrant of the downtown area and features 410 guestrooms along with ±37,000 square feet of on-site meeting space. While select and necessary guestroom and public space renovations are expected in conjunction with the conversion of the operation from Adam's Mark, property characteristics and scope are expected to generally remain unchanged.
- Gal-Tex Hospitality Group owns and operates the 316-room Menger Hotel and the 204-unit Holiday Inn Crockett; both properties are located adjacent to the Alamo and adjacent to one-another. According to management representatives the Holiday Inn Crockett will reportedly undergo a significant expansion and renovation in the near-term totaling an estimated $65 million capital budget. While the Menger last underwent major renovation and expansion efforts between 1984 and 1989, the properties have received only necessary improvements, upgrades, and renovations as of late. Details of the upcoming expansion and renovation project concerning the Crockett were not made public by representatives of the property at the time of our inspection.
- The 252-unit Plaza San Antonio, a Marriott facility, features a sprawling, resort-like setting within the heart of downtown, adjacent to the convention center and only blocks away from the Riverwalk. The property is owned by Highland Hospitality and is recently associated with Crestline (late 2003) as the operating entity. The property is in good condition, although some aspects are dated, making the property vulnerable to declines as new supply continues to enter the downtown competitive environment. These characteristics, along with the hotel's location which slightly removed from the Riverwalk, reportedly results in measurable average rate discounting compared to the hotels located directly on the Riverwalk. The Marriott's primary restaurant/lounge and lobby received limited renovations in 2002/03; however, management noted plans for an estimated $6 million renovation which will include significant guestroom renovations, upgraded corridors, and upgrades to meeting space and recreational amenities such as the free-standing fitness facility and outdoor swimming pool. Various meeting space venues on-site were receiving renovations at the time of inspection, while the majority of meeting space will reportedly receive upgrades following the initial renovation phase, in 2005/06. Lastly, property management noted

the need for additional meeting space to compliment the 16,000 square feet of existing, on-site space; initial future plans call for the conversion of the outdoor tennis courts into highly functional meeting space.

- The 213-room Hotel Valencia opened in January 2003 and represents the most recent addition to supply in the downtown core. The property was developed and remains owned and operated by Valencia Hotels Group out of San Antonio. This competitor benefits from a Riverwalk location among other popular secondary competitors such as the Sheraton Gunter and La Mansion Del Rio. The property is extremely modern and contemporary in design, unlike competitive properties. Upscale amenities include twice-daily housekeeping service, multiple points of high-speed internet access within each guestroom, and custom-made Valencia beds with upscale linens. Due to a modest room count and very limited meeting space, the hotel reportedly caterers primarily to the individual traveler; however, recent information suggests that the property has identified a need for more meeting space with the meeting and group-heavy market and is converting limited public space and administrative areas to meeting rooms.

Additions to Supply

It is important to consider any new hotels that may have an impact on the subject property's operating performance. In addition to the 1,000-unit subject property, several additional proposed hotel projects are either recently completed, under development, or proposed for the downtown San Antonio market.

A 266-unit all-suite hotel is currently entering final planning and pre-construction stages. The property is planned to be located along the Riverwalk, proximate to the Westin Riverwalk, at Navarro and Market streets. The site is currently owned by and the developer of this project is Riverton Suites, Ltd. The ownership company includes the development team comprising Hixon Properties Incorporated and Hines Interests Limited Partnership. Other ownership interests in Riverton Suites, Ltd. include HPI Suites Investors, Ltd., and an undisclosed third party. While initial plans outlined the development of the property as an Embassy Suites facility, recent information suggests that the hotel will be operated as an independent, modified, full-service hotel which will emulate an Embassy Suites-type product. Initial site work was being completed at the time of our inspection; target completion for the project is January 1, 2006. Due to anticipated characteristics of the all-suite hotel, we expect the property to be only partially competitive with the proposed subject property in the future.

The owners of the luxury La Mansion Del Rio hotel recently developed and opened an ultra-luxury inn, the Watermark, adjacent from the existing, highly successful luxury hotel on the Riverwalk. Due to the price point of this small, boutique facility, it is not expected to be competitive with the subject property.

Limited-service hotel development continues on the periphery of the CBD, where land prices are more reasonable. For example, La Quinta is pursuing their redevelopment and expansion of the existing La Quinta Inn, including a ±200-room expansion adjacent from the Marriott Rivercenter. This type of development is not considered a risk to the proposed subject property, as these hotels generally cater to the more price-sensitive demand in this market. Additionally, a ±300- to ±400-room expansion is rumored involving the existing Drury Inn & Suites and Aztec Theater; however, preliminary development plans and details of any such expansion were not disclosed at the time of our inspection.

Conclusion

We have identified five primarily competitive downtown properties and twelve secondary competitors that are expected to be competitive to some degree with the proposed subject property. In 2003, the total competitive supply achieved an estimated roundly 73.0% occupancy at a $131.00 average rate, resulting in a RevPAR of roundly $95.00.

7. Review of Proposed Hotel Facility

For the purposes of estimating income and expense for the subject property, we have relied on a proposed facility program for the subject property which includes 1,000 guestrooms. We have assumed other ancillary components of the hotel would be constructed along with this guestroom tower, in order to allow the hotel to be a formidable competitor within the U.S. convention hotel market. These assumptions and a review of the facilities offered by competitive cities are illustrated in this chapter.

Project Timing

Our forecast must begin on a given date. For the purpose of this analysis, we have assumed an opening date of January 1, 2008. This date takes into consideration time for funding, pre-development (plan approval, permits), pre-marketing and pre-booking, and construction. Moreover, our occupancy build-up takes into consideration the formidable task of opening a hotel on a specific date. Most often, hotels are open "almost finished." These properties are in functional condition, but staff is still being trained and construction odds and ends are being attended to. Technology glitches are being handled, and back-ordered items are still being installed.

Product Quality Category and Brand Affiliation

It is assumed that the hotel will be full-service in nature and with the finish-out typical of a first-class, convention headquarters hotel. The hotel's facility is expected to be of high quality, conforming at a minimum to the brand-specific guidelines set forth by the operator that is chosen for the hotel. Our forecast assumes that the property will be maintained in a competitive condition, undergoing regular renovations of soft goods and case goods funded primarily by a reserve for replacement.

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. The hotel's facilities are expected to be of a high quality level for the San Antonio market area, and similar in finish and first-class feel to the Westin, the Marriott Rivercenter/Riverwalk, the Hyatt Regency, or the Hilton. Hence, the proposed subject property's guestrooms are expected to be upscale and comfortable as the hotel facilities are expected to serve as the host hotel for conventions, in-house groups, and transient travelers. The product should conform to the guidelines to achieve at least a 3-star Mobil hotel rating and 4-diamond AAA hotel rating.

HOTEL DESIGN AND FUNCTIONALITY

In the remainder of this section, we will discuss each component of the hotel in greater detail. Both design and functionality features are discussed, as well as a review of the necessary features required within each hotel area.

Exterior, Entryway, and Lobby

A hotel's entrance and exterior appearance is important to the overall image of a lodging facility. In addition to serving a number of functional uses, the entryway, exterior grounds, and hotel lobby create the important first impression on the arriving guest. Therefore, the exterior of the hotel must be first-class in appearance and should conform to the design requirements for a significant downtown structure. The building should be highlighted by exterior lighting as necessary during the evening hours and should have easily identifiable signage at the entry to the site and on the hotel building itself. The grounds of the hotel should be landscaped with a variety of trees, shrubs, and flower beds to complement the well kept, landscape of the convention center. The grounds and the parking structure should be well lit during evening and night hours.

The main entrance of the hotel should feature a porte cochere (covered entry) that is easily identifiable from the main entrance to the site. The entrance should have a breezeway with automatic, revolving doors. The lobby area should be well organized, to minimize confusion and maximize traffic flow for guests and personnel. The lobby seating area should be ample, in order to accommodate guests who wish to socialize or groups of people assembling for other functions. Lighting, furniture, and decor should be designed for aesthetics and guest comfort. Public restrooms, telephones, and elevators should be clearly identifiable and easy to reach. Other facilities expected to be accessed off of the lobby include the hotel's concept restaurant, casual restaurant, lobby lounge, the gift shop, and the escalators to the any upper level public space.

The front desk should be located within the lobby and should be well equipped for guest registration, advance reservations, cashier services, money changing, information, distribution of room keys and guest mail, messages, switchboard operation, and accounting. It should be finished with a marble top, and artwork should be placed on the wall behind the desk. The front desk area should have direct telephone and/or intercom linkage with all areas of the hotel including administrative offices, the housekeeping department, restaurant and lounge, fitness area, and guestrooms.

The front desk should also provide a system of security for cash and guests' valuables; this is best accomplished through the use of a safe, located in a separate room designed for this purpose. Guests should be allowed to see their valuables being placed into the safe, but this area should not be readily visible to passers-by or employees.

Guestrooms

Arguably, the two most important factors in choosing any city's convention center and its convention headquarters hotel are the size of the available room block at the hotel and the size of the center's and hotel's main ballroom. In this sub-section, we will discuss the guestrooms.

Meeting planners prefer to have a majority of their constituents within the larger, headquarters room block. If a convention is able to house the majority of constituents at a singular property, less coordination efforts are needed between hotels. Moreover, the meeting planner has a greater chance at capturing the attendee for more convention-related events if the attendee is being housed within the property. Smaller room blocks are made at surrounding hotels as necessary, typically within close proximity to the convention center and headquarters hotel.

Convention travelers themselves also prefer to be within the headquarters hotel. Often, meeting attendees want to escape to their guestrooms between meetings for breaks, to drop-off or pick-up materials, or handle other necessities. It is also the most easy and preferred access to the meetings at the beginning and end of the day's sessions. If staying at a nearby hotel, guests often have to reserve more time for transportation to and from the meeting facility and cannot escape to guestrooms between sessions.

Several years ago (and even today), the presence of the substantial headquarters hotel was more of an exception to the norm. As such, large conventions were willing to split up their attendees among many different hotels, as well as settling for a smaller headquarters hotel block. However, the market is now shifting as more and more cities build substantial headquarters hotel properties. Substantial room blocks are now becoming available in large hotels located adjacent to the region's most significant convention centers. Meeting planners will now have their pick of facilities, which offer substantial room blocks within the headquarters hotel.

As noted previously, the subject hotel is proposed to have 1,000 guestrooms, which is expected to contain a mix of standard rooms and suites. While the Marriott Rivercenter and Riverwalk properties are generally collectively positioned as a headquarters facility for the convention center, a single, designated convention headquarters hotel may enable the Henry B. Gonzalez Convention Center to better compete with other cities which offer a headquarters hotel capability. The following survey illustrates the room supply offered or to be offered by a selection of these competitive convention cities.

Hotel Presence in Competitive Convention Cities

Convention Center	Proposed/Planned Headquarters Hotel	Adjacent Headquarters Hotel	Existing Primary Hotel	Existing Primary Hotel	Existing Primary Hotel
Orlando Orange County	1,000-rm Peabody Expansion	891-rm Peabody Hotel	2,267-rm Swan & Dolphin	2,000-rm Marriott	Many other large Orlando hotels
Chicago McCormick Place	—	800-rm Hyatt	2,019-rm Hyatt Regency	1,543-rm Hilton	1,192-rm Marriott & 1,209-rm Sheraton
Atlanta Georgia World Congress	—	1,067-rm Omni (Expanded)	1,675-rm Marriott	1,264-rm Grand Hyatt	1,224-rm Hilton
Dallas	Under Study	—	1,122-rm Hyatt	1,614-rm Wyndham Anatole	1,840-rm Adam's Mark
New Orleans	Under Study (for 2nd hotel)	1,616-rm Hilton	1,100 Sheraton	1,344-rm Marriott	1,184-rm Hyatt
Houston	—	1,200-rm Hilton (New)	977-rm Hyatt	350-rm DoubleTree	399-rm Four Seasons
Denver	1,100-rm Hyatt (late 2006)	—	1,225-rm Adam's Mark	613-rm Marriott	511-rm Hyatt
San Diego Convention Center	—	1,303-rm Marriott	1,625-rm Hyatt (Expanded)	450-rm Westin	—
St. Louis	—	875-rm Renaissance (New)	910-rm Adam's Mark	780-rm Millenium	672-rm Marriott & 538-rm Hyatt
San Antonio	Under Study	—	1,001-rm Marriott	632-rm Hyatt	515-rm Marriott
Kansas City	—	946-rm Marriott	731-rm Hyatt	729-rm Westin	—
Indianapolis	—	587-rm Marriott (New)	573-rm Westin	497-rm Hyatt	424-rm Omni
Charlotte	—	700-rm Westin (New)	613-rm Adam's Mark	434-rm Marriott	407-rm Hilton
Austin	—	800-rm Hilton (New)	446-rm Hyatt	413-rm Radisson	375-rm Omni
Fort Worth	Under Study	—	517-rm Radisson	504-rm Renaissance	430-rm Fort Worth Plaza Hotel
Birmingham	—	770-rm Sheraton	298-rm Radisson	—	—
Tampa Convention Center	—	717-rm Marriott (New)	521-rm Hyatt	299-rm Wyndham	312-rm Holiday Inn
Memphis	202-rm Marriott Expansion	400-rm Marriott	468-rm Peabody	280-rm Radisson	—

As illustrated, a majority of those cities considered competitive with San Antonio currently offer, or will soon offer, the convention planner an adjacent headquarters hotel. This data also illustrates the many cities which have recently added headquarters capabilities.

Review of Competitors' Room Counts, Suite Mix, and Food and Beverage Offering

The following two tables display the current room counts of select competitors including opening year, suite counts, and food and beverage offerings.

Guestroom Count, Suite Mix, Food and Beverage Outlets – Competitive Review

			Current Ratings				Food and Beverage Facilities		
Hotel Name	Number of Rooms	Year Opened	Mobil Stars	AAA Diamonds	Suites Total	% Suites of Total	Concept/ Fine	Casual	Lounge
Dallas, TX									
Adam's Mark	1,840	1959/98	NA	NA	211	11.5 %	1	3	2
Wyndham Anatole	1,614	1979/83	3	4	129	8.0	1	4	3
Dallas Hyatt	1,122	1978	3	4	41	3.7	1	2	2
Grapevine, TX									
Gaylord Texan	1,500	2004	NA	NA	120	8.0	1	4	2
Fort Worth, TX									
Radisson	517	1921/81	2	3	11	2.1 %	0	2	1
Renaissance	504	1981	3	4	30	6.0	1	1	1
Fort Worth Plaza	430	1973	2	0	24	5.6	0	1	2
San Antonio, TX									
Marriott Rivercenter	1,001	1968	4	4	86	8.6 %	1	1	1
Hyatt	632	1981	3	4	28	4.4	0	1	1
Marriott Riverwalk	515	1979	3	4	5	1.0	0	2	1
Austin, TX									
Hilton	800	2004	NA	NA	25	3.1 %	0	2	1
Hyatt	446	1982	3	4	18	4.0	0	2	1
Radisson	413	1966	3	3	99	24.0	0	1	0
Houston, TX									
Hilton Americas	1,200	2003	NA	4	66	5.5 %	1	2	1
Houston Hyatt	977	1973	3	3	30	3.1	1	2	1
New Orleans, LA									
New Orleans Hilton	1,616	1977	3	4	73	4.5	0	2	2
New Orleans Sheraton	1,100	1982	3	4	53	4.8	0	2	1
New Orleans Marriott	1,344	1972	4	3	54	4.0	1	1	3

Guestroom Count, Suite Mix, Food and Beverage Outlets – Competitive Review (Continued)

			Current Ratings				Food and Beverage Facilities		
Hotel Name	Number of Rooms	Year Opened	Mobil Stars	AAA Diamonds	Suites Total	% Suites of Total	Concept/ Fine	Casual	Lounge
Denver, CO									
Adam's Mark	1,225	1959/97	3	3	92	7.5 %	1	2	4
Marriott City Center	613	1982	3	3	16	2.6	0	1	1
Hyatt Regency	511	1979	3	3	25	4.9	1	0	2
Kansas City, MO									
Marriott	946	1985	3	3	37	3.9 %	0	3	2
Hyatt	731	1980	3	4	42	5.7	1	2	1
Westin	729	1973	3	3	49	6.7	1	1	1
St. Louis, MO									
Renaissance	875	2003	NA	4	43	9.6 %	1	0	1
Adam's Mark	910	1986	2	3	96	9.6	1	2	2
Millennium	780	1969	3	3	25	3.2	1	2	2
Chicago, IL									
Hyatt McCormick Place	800	1998	3	NA	53	6.6 %	1	0	1
Hyatt Downtown	2,019	1974/80	3	4	175	8.7	1	4	2
Hilton and Towers	1,543	1927	3	3	65	4.2	1	2	1
Indianapolis, IN									
Marriott	587	2001	3	4	28	4.8 %	1	1	1
Westin	573	1989	3	3	30	5.2	1	1	1
Hyatt	497	1977	3	3	21	4.2	1	1	1
Atlanta, GA									
Atlanta Grand Hyatt	1,264	1967	3	3	58	4.6 %	2	2	2
Omni	1,067	1976/03	3	4	30	2.8	1	1	1
Atlanta Marriott	1,675	1985	3	3	66	3.9	1	3	1
San Diego, CA									
Manchester Grand Hyatt	1,625	1992	3	4	95	5.9 %	1	2	2
San Diego Marriott	1,303	1987	3	4	55	4.2	1	3	1

As noted, the subject property should ideally attain 3-star and 4-diamond ratings. The suite mix should be near 5.0%. We note that the latest in hotel design shows that a lesser suite count is now demanded in today's market; this trend is taken into consideration in our suite count recommendation. Some suites are still an important inclusion and are typically included as upgrades for meeting planners, association officials, or corporate officers visiting the convention.

The proposed property's guestrooms should be designed to efficiently use space and should appear spacious and comfortable. The guestrooms should consist of a mixture of double/doubles and kings, in addition to a combination of several suite arrangements. Guestroom furnishings should reflect a first-class level of quality. Because hotel decor periodically undergoes changes in style, an experienced interior designer should be consulted in order to implement the current offerings. Some of the items that should be provided in the living area of the guestrooms are outlined in the following table.

Guestroom Amenities and Furnishings
Beds with box springs, headboards, mattresses, and pillows
Recessed reading light(s) proximate to bed(s)
Nightstand(s)
Bedside alarm clock radio
Bureau
Remote-controlled color cable television with cable service
Over-sized desk or work table with adequate chair and lighting
Direct-dial, touch-tone with message light, computer modem-port clear instructions and extra long phone cord to allow use at desk or bed
Comfortable armchair(s) and couch
Coffee and end table(s)
Curtains with blackout panels
Artwork or wall hangings
Portable luggage rack
Adequate room lighting
Wastebasket(s)
Small refrigerator in suites
Electronic card-style door lock with deadbolt
Door chain or other, similar security device
Security peephole

The closet should have a sufficient number and variety of one-piece, non-captive hangers and a hanger bar of suitable length to accommodate three days worth of clothing for two people.

Most guestroom floors should be designated as non-smoking floors. Guestroom wall covering should be of top-grade vinyl and color-coordinated with plush carpeting, bedspreads, and floor-length drapes. Draperies may be equipped with a valance and extend past the window edge, perhaps covering the entire wall. An efficient heating and air-conditioning system that operates quietly, is thermostatically controlled, and permits guests a year-round choice of either heat or air conditioning is necessary. Special effort should be made to limit sound transmission between guestrooms and from plumbing, HVAC units, and outside sources such as passing traffic.

The bath area should contain a sink with a vanity top, a large mirror, and superior lighting from recessed-type fixtures; the commode and combination tub/shower should be designed to be located in the same room as the sink and vanity. Adequate and quiet ventilation is necessary during shower use. Other bath amenities should include easily reached electrical outlets, shower area hand rails, a tissue dispenser, towel racks, toilet paper with spare, good quality bath and wash towels, soap and shampoo, and a trash can.

Proper corridor design is needed so guests are always within a short walking distance of their rooms. When possible, corridor lengths from the elevators and lobbies should be minimized. A six-foot-wide corridor, along with proper lighting and wall treatment, will reduce the tunnel effect of a long hallway. Bright corridors with overhead lighting increase the attractiveness and safety of the corridor. Provisions should be made to protect walls from rolling room attendant’s carts and luggage carts that can scratch and tear the wall covering. Vending and ice machines should be readily accessible to guests and be located in an area that will not create noise disturbances for nearby guestrooms.

Food and Beverage Outlets

The food and beverage facilities appropriate for a convention headquarters hotel include a casual restaurant, a concept restaurant, and a lobby lounge. This outlet mix is well supported by the current offerings of competitors in the market and nationwide, as illustrated on the previous table. These outlets should be located on the first level of the hotel and should feature a first-class design consistent with the overall feel and style of the hotel. Each outlet should be themed to highlight its presence within the hotel and downtown San Antonio; San Antonio remains a cultural and historical focal point of Texas. Its décor should follow this theme and should provide diners with unique, interesting on-site dining experiences. The hotel should benefit from a strong capture for breakfast, as there are relatively few other competitive dine-in establishments in the immediate market for this meal.

The casual restaurant and lounge should be adjacent to one another, to allow for synergy and efficiency in staffing and management. At least one restaurant, preferably the concept room, should be designed with its own, identifiable outside entryway. As an additional marketing tool, the entryway signage of the hotel should also feature the name of this hotel restaurant. Management should advertise the presence of the restaurants throughout the hotel, as well as in local convention fliers and at local venues. Management should also market the restaurants to nearby employment centers. The restaurant entrance should be visible from the main entrance of the hotel, and ideally from the entrance to the convention center as well, so that center users see the presence of a restaurant for potential before-event or after-event use.

Meeting and Function Space

As noted previously, the size and capacity of the headquarters hotel's meeting space is of utmost importance, and the size of the hotel's grand ballroom is typically one of the most critical factors. While meeting planners may use the convention center's ballroom(s) throughout their event, planners typically prefer to have the closing banquet or other selected events in the ballroom of the headquarters hotel. Even if the convention center has a large ballroom, the headquarters hotel must also have a large ballroom in order to house these special convention-related events. The ballroom must also be large enough to support large in-house groups that may be utilizing the hotel while the convention center is not in use.

The 1,000-room hotel's meeting space is expected to span roughly 90,000 square feet, mainly comprising a ±30,000- to ±40,000-square-foot ballroom. The ballroom will be fully divisible into an array of smaller and mid-sized meeting rooms. Necessary pre-function space is not included in the above figures. The hotel is expected to offer an adequate business center to provide the necessary services and amenities to meeting patrons and commercial travelers.

Most meeting planners prefer that all meeting space is located on one floor, which typically causes an increase in traffic between the uses of each space. The meeting space should feature the latest in technology, preferably offering a greater capability than the present hotels in the market. This latest in technology, in addition to the brand new finish and construction, should afford the subject property an appropriate competitive position both in the local, regional, and national market.

The following tables illustrate a competitive review of the other hotels in the competitive area as well as regionally and nationally significant hotels. This portion of the review illustrates each hotel's proximity to the convention center, grand ballroom space, junior ballroom space, total meeting space, exhibit space, and number of breakout rooms.

Meeting Space – Competitive Review

Hotel Name	Connected to Convention Center?	If no, how far to center?	Meeting Space Square Feet: Grand Ballroom	Junior Ballroom	Total Meet. Sp.	Per Room	Exhibit Space
Dallas & Grapevine, TX							
Adam's Mark	No	1/2 Mile	40,800	24,624	122,800	67	40,000
Wyndham Anatole	No	2 1/2 Miles	28,400	17,400	341,000	211	128,000
Dallas Hyatt	No	1/4 Mile	30,000	19,400	160,000	143	55,000
Grapevine, TX							
Gaylord Texan	N/A	N/A	49,900	32,375	112,296	75	180,288
Fort Worth, TX							
Radisson	No	Adjacent	13,624	3,192	21,219	41	0
Renaissance	No	1/2 Mile	10,530	5,452	31,575	63	12,600
Ramada Plaza	No	1 Block	8,652	4,624	16,324	38	0
San Antonio, TX							
Marriott Rivercenter	No	1 Block	41,600	0	57,300	57	0
Hyatt	No	2 Blocks	10,700	4,264	39,000	62	18,000
Marriott Riverwalk	No	Adjacent	9,800	0	15,116	29	0
Austin, TX							
Hilton	Yes	Adjacent	27,452	15,608	55,525	69	0
Hyatt	No	3 Blocks	10,290	0	19,378	43	0
Radisson	No	2 Blocks	5,400	0	9,600	23	0
Houston, TX							
Hilton Americas	Yes	Connected	39,138	29,170	91,500	76	0
Houston Hyatt	No	10 Blocks	16,000	3,200	36,000	37	30,000
New Orleans, LA							
New Orleans Hilton	No	Adjacent	26,894	24,139	130,000	80	20,582
New Orleans Sheraton	No	1/4 Mile	22,882	18,762	90,000	82	0
New Orleans Marriott	No	1/4 Mile	27,089	10,368	72,880	54	0

Meeting Space – Competitive Review (Continued)

Hotel Name	Connected to Convention Center?	If no, how far to center?	Meeting Space Square Feet: Grand Ballroom	Junior Ballroom	Total Meet. Sp.	Per Room	Exhibit Space
Denver, CO							
Adam's Mark	No	3 Blocks	28,000	15,000	105,670	86	20,000
Marriott	No	4 Blocks	14,508	5,940	24,858	41	0
Hyatt	No	5 Blocks	8,848	6,885	34,384	67	0
Kansas City, MO							
Marriott	No	Adjacent	17,040	15,080	58,240	62	12,000
Hyatt	No	12 Blocks	17,487	3,741	44,804	61	15,360
Westin	No	12 Blocks	16,089	6,777	43,747	60	0
St. Louis, MO							
Renaissance	No	Adjacent	18,652	11,053	41,865	48	0
Adam's Mark	No	2 Blocks	19,758	16,800	49,740	55	25,000
Millennium	No	4 Blocks	20,800	7,020	34,844	45	15,350
Chicago, IL							
Hyatt McCormick Place	Yes	Adjacent	11,948	0	17,467	22	0
Hyatt Downtown	No	3 Miles	24,500	16,560	110,000	54	70,000
Hilton and Towers	No	2 Miles	21,996	12,640	234,000	152	64,790
Indianapolis, IN							
Marriott	Yes	Adjacent	21,008	8,320	35,356	60	0
Westin	Yes	Adjacent	17,000	6,700	33,453	58	0
Hyatt	Yes	1 Block	7,208	3,850	20,890	42	9,408
Atlanta, GA							
Atlanta Hyatt	No	1 Mile	28,832	17,000	126,050	100	53,950
Omni	No	Adjacent	19,864	14,196	102,000	96	15,000
Atlanta Marriott	No	1 Mile	28,884	16,026	112,000	67	38,000
San Diego, CA							
Manchester Grand Hyatt	No	1 Block	29,000	25,192	120,000	74	34,000
San Diego Marriott	Yes	Adjacent	23,108	15,111	83,585	64	25,254

As illustrated in the previous tables, the larger properties tend to offer ballrooms of 20,000 square feet or larger. The larger headquarters hotels under construction at this time typically feature ballrooms of 25,000 to 45,000 square feet on average. The ballroom must offer the latest in available technology and a competitive ceiling height that allows for proper visibility of the stage area and overhead exhibits or screens.

Junior ballrooms vary in size in the sample and are not always prevalent. The inclusion of a junior ballroom is essential for the subject hotel. Typically, the junior ballroom can be used for exhibits or dining, while the grand ballroom is used for general sessions, or the like. The junior ballroom can also allow the hotel to host two groups simultaneously, with the smaller group utilizing the junior ballroom space. As such, advantageous hotel design separates these two spaces somewhat so that two simultaneous groups do not necessarily conflict with one another.

Separate exhibit space is not absolutely needed in the case of the proposed subject. For smaller meetings requiring exhibits, the pre-function space of the grand ballroom can typically be utilized, or the junior ballroom can be utilized for this function (or a portion of a divided grand ballroom). Larger events requiring significant exhibits will most likely utilize the adjacent convention center.

The number of breakout rooms should be at least 15 to 20 for the headquarters property. These breakout spaces can also be incorporated into a divisible junior and grand ballroom. The additional space provided by breakout rooms should add up to the previously stated additional meeting space planned for the hotel.

Recreational Amenities and Parking

The proposed subject property should contain amenities appropriate for a first-class hotel in this market. Our review of this market revealed that appropriate amenities include an indoor pool, an indoor whirlpool, and an exercise room. A small gift shop off of the lobby is expected to be the only retail amenity within the hotel.

Ample parking for the hotel should be conveniently available to hotel guests within the area parking decks and surface spaces created at the hotel. There should be both valet and self-park options at rates consistent with those charged at the other downtown area hotels. A typical rule of thumb for parking capacity at a hotel is one space per guestroom. This can certainly vary, depending on agreements reached with possible adjacent parking facilities, or the likelihood of those traveling to the market to drive-in or rent a car at the airport. Our experience in markets similar to San Antonio, where drive-in demand is prevalent (or rental cars at the San Antonio International are utilized), has shown that hotels can typically operate with a ratio between 0.8 and 1.0 spaces per guestroom.

The following tables illustrate a competitive review of the significant hotels. This portion of the review illustrates each hotel's number of retail outlets, pools, whirlpools, and other amenities.

Retail and Recreational Amenities – Competitive Review

Hotel Name	Number of Retail Outlets	Recreational Amenities: Indoor Pool	Outdoor Pool	Whirlpool/ Hot Tub	Fitness Center	Other (List)
Dallas & Grapevine, TX						
Adam's Mark	2	Y	Y	Y	Y	Gameroom
Wyndham Anatole	5+	Y	Y	Y	Y	8 Racquetball, 6 tennis, 2 squash courts
Dallas Hyatt	1	N	Y	Y	Y	New 3rd-floor fitness center
Grapevine, TX						
Gaylord Texan	10,000 SF	Y	Y	Y	Y	Spa, jogging trails (outdoor)
Fort Worth, TX						
Radisson	1	N	Y	N	Y	
Renaissance	1	Y	N	Y	Y	Sauna
Ramada Plaza	1	N	Y	Y	Y	
San Antonio, TX						
Marriott Rivercenter	1	Y	Y	Y	Y	Sauna
Hyatt	3	N	Y	Y	Y	
Marriott Riverwalk	1	Y	Y	Y	Y	Sauna
Austin, TX						
Hilton	1	N	Y	Y	Y	
Hyatt	1	N	Y	Y	Y	
Radisson	1	N	Y	N	Y	
Houston, TX						
Hilton Americas	2	N	Y	Y	Y	
Houston Hyatt	2	N	Y	N	Y	Sundeck
New Orleans, LA						
New Orleans Hilton	4	N	Y	Y	Y	11 tennis,4 racquetball, 3 sqsh cts
New Orleans Sheraton	1	N	Y	N	Y	
New Orleans Marriott	1	N	Y	N	Y	Sauna

Retail and Recreational Amenities – Competitive Review (Continued)

Hotel Name	Number of Retail Outlets	Recreational Amenities: Indoor Pool	Outdoor Pool	Whirlpool/ Hot Tub	Fitness Center	Other (List)
Denver, CO						
Adam's Mark	3	N	Y	N	Y	Pool is heated year-round
Marriott	1	Y	N	Y	N	Hertz counter, sauna, guest laundry
Hyatt	2	Y	Y	Y	Y	Roof top location for recreational amenenities
Kansas City, MO						
Marriott	1	Y	N	N	Y	
Hyatt	1	N	Y	Y	Y	Sundeck, tennis, connected to Crowne Center mall
Westin	1	N	Y	Y	Y	Tennis, connected to shopping mall
St. Louis, MO						
Renaissance	1	Y	N	Y	Y	Jogging
Adam's Mark	2	Y	Y	Y	Y	Racquetball, sauna
Millennium	1	Y	Y	N	Y	Game room
Chicago, IL						
Hyatt McCormick Place	1	Y	N	N	Y	Sauna, outdoor sundeck
Hyatt Downtown	2	N	N	N	N	Adjacent to The Athletic Club Health Club and Spa
Hilton and Towers	3	Y	N	Y	Y	Beauty salon, walking track
Indianapolis, IN						
Marriott	1	Y	N	Y	Y	
Westin	1	Y	N	Y	N	Complimentary 24-hour fitness center nearby
Hyatt	3	Y	N	Y	Y	Hair Salon
Atlanta, GA						
Atlanta Hyatt	1	N	Y	N	Y	
Omni	4	N	Y	N	Y	
Atlanta Marriott	1	Y	Y	Y	Y	Solarium, sauna
San Diego, CA						
Manchester Grand Hyatt	3	N	Y	Y	Y	Spa Services
San Diego Marriott	1	N	Y	Y	Y	Massage, 6 Tennis Crts, Sauna, Jogging Trail

Back-of-the-House Space

The housekeeping department should include the linen issue, storage area, and the laundry. The linen room should have an office for the executive housekeeper and a rooms status system joined to the front desk. Adequate storage areas are required for linens and supplies in use, as well as new, unused linen and supplies. These areas should be locked and secured at all times. A linen and uniform issue area should be situated adjacent to the linen storage rooms, where employees will pick up their clean uniforms and the linen supplies required for the day.

Sufficient storage is required in the maintenance area to hold items such as spare parts, mechanical equipment, furniture, carpet, wall covering, cleaning materials, and cleaning and maintenance equipment.

Administrative Offices

The offices should be located adjacent to the hotel's reception desk. They should be attractively decorated. The office design should be functional with no wasted space.

Fire Protection

Fire safety should be planned on a structural level to separate areas of high fire risk (e.g., laundry room) from areas in which fire is likely to cause particular hazards (e.g., corridors, stairwells, public rooms). Smoke and heat detectors, sprinkler systems, exit signage, fire extinguishers, pull stations, standpipes, and emergency lighting should be installed according to code. System design considerations should be geared to adjust to future codes.

ADA Conformance

Following the January 26, 1992, passage of the Americans with Disabilities Act (ADA), the proposed hotel will be subject to specific physical standards. ADA standards principally address the number and accessibility of guestrooms designed to accommodate physically challenged guests, though a variety of safety standards are also included that can touch on the status of building systems. We have assumed that the hotel will conform to all ADA requirements.

Conclusion

In the planning and design considerations for hotels, guest comfort and satisfaction is paramount, but must be developed within the boundaries defined by economic feasibility. Guest satisfaction is generated not only by the aesthetic and structural design parameters that directly affect the hotel's guestrooms and public areas, but also by the functional layout and configuration of the building as a whole.

The design, functional layout, and configuration of the proposed subject property must be straightforward and incorporate sound design principles for hotel construction and in accordance with generally accepted standards for a first-class hotel. The design of guest, public, and back-of-the-house traffic circulation patterns, the separation of back-of-the-house facilities from the public facilities, and the ease of access from public to non-public areas are also among the major design factors that promote guest comfort and efficiency of operation. The optimal design for the proposed subject property should not only encompass the recommended facilities but should also appropriately balance the considerations of guest satisfaction, operational efficiency, and cost benefit.

The proposed subject improvements are expected to contain 1,000 guestrooms and approximately 90,000 square feet of meeting and function space, casual and concept restaurants, a lobby lounge, a fitness room, a swimming pool and whirlpool, a gift shop, and other support facilities necessary for the operation of a full-service, convention headquarters hotel. The subject property's furniture, fixtures, and equipment should be of first-class quality and comparable or superior to those of its competitors in the area.

8. Projection of Latent Demand

As illustrated in Chapter 5 of our report, we estimated the base year distribution of accommodated room night demand as follows.

Accommodated Room Night Demand

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	120,681	8 %
Meeting and Group	859,670	58
Leisure	514,409	34
Total	1,494,760	100 %

This estimate, of 1,500,000 (rounded) room nights, is based on historical occupancy levels and includes only those hotel rooms that were used by guests within the defined and weighted competitive set. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply and can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future and it is necessary to quantify this demand.

Areawide occupancy in excess of 70% is typically the first sign of possible unaccommodated demand in any given market. The following table again illustrates the monthly occupancy trends, as provided by Smith Travel Research for this market.

Monthly Occupancy Trends (STR)

							YTD January	
Month	1998	1999	2000	2001	2002	2003	2003	2004
January	67.5 %	63.8 %	66.4 %	58.6 %	64.0 %	61.8 %	61.8 %	63.1 %
February	83.0	81.5	83.1	79.4	81.8	75.9	75.9	77.4
March	84.9	83.7	84.9	89.0	87.8	83.8	—	—
April	81.9	82.3	80.2	73.8	81.8	76.1	—	—
May	81.9	79.0	72.4	69.5	81.9	76.3	—	—
June	74.0	73.4	76.0	81.1	79.0	83.0	—	—
July	75.9	72.7	78.6	69.8	74.1	78.7	—	—
August	71.5	64.2	69.2	71.7	72.1	78.3	—	—
September	73.4	72.5	73.5	53.1	67.8	62.1	—	—
October	80.5	80.8	73.5	74.3	74.8	69.3	—	—
November	69.0	63.4	71.5	66.1	66.3	70.6	—	—
December	60.0	58.0	62.7	63.0	61.9	58.5	—	—
Annual Occupancy	75.2 %	72.7 %	74.3 %	70.7 %	74.4 %	72.8 %	—	—
YTD January	74.8 %	72.2 %	74.3 %	68.5 %	72.4 %	68.5 %	68.5 %	69.9 %

Source: Smith Travel Research

Our interviews with market representatives and this data confirm that there are definite levels of unaccommodated demand for the downtown core district of hotels. Much of this excess demand must find accommodations in outlying hotels on the periphery of the downtown district, or at a greater distance during peak demand periods.

We note that in the historical base year, Smith Travel Research reports an annual occupancy of 72.8% for the subject property's competitive market area. As discussed previously, this annual occupancy is comprised of a range of monthly occupancy levels, ranging from 58.5% in December to 83.8% in March. Based on these trends it is likely that unaccommodated demand exists in the market in some periods. The following table details the base year marketwide occupancy by month, along with the monthly maximum and minimum occupancy levels achieved over the trend period.

Marketwide Base Year Occupancy and Maximum/Minimum Trends

	Base Year Monthly Occupancy	Trend Maximum Occupancy	Trend Minimum Occupancy
January	61.8%	67.5%	58.6%
February	75.9%	83.1%	75.9%
March	83.8%	89.0%	83.7%
April	76.1%	82.3%	73.8%
May	76.3%	81.9%	69.5%
June	83.0%	83.0%	73.4%
July	78.7%	78.7%	69.8%
August	78.3%	78.3%	64.2%
September	62.1%	73.5%	53.1%
October	69.3%	80.8%	69.3%
November	70.6%	71.5%	63.4%
December	58.5%	63.0%	58.0%
	72.8%	75.2%	70.7%

Source: Smith Travel Research

We have also compared the annual occupancies reported by Smith Travel Research to the annualized occupancy levels we derived from our own market interviews. In some cases, reporting by hotels to STR is inconsistent, thereby skewing the data. Furthermore, the STR estimation of marketwide occupancy gives equal competitive weight to all the hotels contained in the sample, where in reality some of the hotels may only be partially competitive with the subject property. We have therefore made slight adjustments to the historical monthly occupancy levels shown above based on our estimation of the base year's weighted marketwide occupancy.

Based upon our review of demand fluctuations within the subject property's market area, we have made an estimation of the amount of unaccommodated demand present. This estimation is made per month as a percentage of the known base year accommodated demand in each segment. The results are shown in the table below.

Estimation of Unaccommodated Demand

	Commercial		Meeting and Group		Leisure	
	%	Room Nights	%	Room Nights	%	Room Nights
January	0 %	0	0 %	0	0 %	0
February	0	0	2	1,375	0	0
March	0	0	5	4,201	1	503
April	0	0	5	3,692	3	1,326
May	0	0	3	2,295	2	915
June	0	0	2	1,610	3	1,445
July	0	0	0	0	3	1,416
August	0	0	0	0	5	2,347
September	0	0	2	1,205	1	361
October	0	0	3	2,084	0	0
November	0	0	2	1,369	0	0
December	0	0	0	0	0	0
Total	0 %	0	2 %	17,831	2 %	8,313

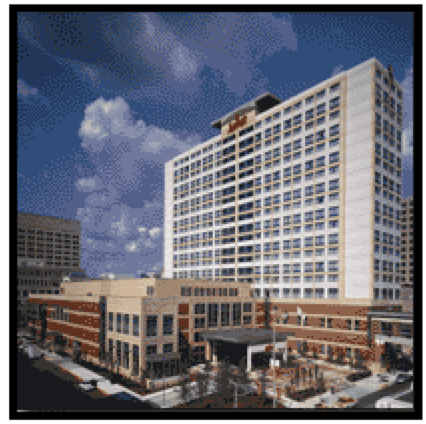
INDUCED DEMAND

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. The addition of the subject property would be expected to be such an event, and its opening should induce considerable levels of demand into this market.

Induced Demand: Industry Examples

As a starting point in our analysis, we reviewed the performance of other convention headquarters hotels that opened in the recent past. These recent openings provide us with direct insight into how new convention headquarters hotels actually induce demand levels into their respective markets.

Indianapolis Marriott



The 615-unit Marriott Indianapolis opened in February 2001. In its partial, first calendar year of operation, the hotel achieved an occupancy level in the range of 65% to 70% (the actual level is not stated due to confidentiality of this data). In 1999 and 2000, downtown occupancy was 70% and 71%, respectively. In 2001, the market's occupancy dropped roundly three points to 68%. The demand induced into the market by the opening of the Marriott did not equal the supply increase, hence leading to the occupancy decline. But, this is to be expected in the first year of operation for the hotel, and with the travel slowdowns prevalent in the fall months of 2001.

The new hotel added roundly 205,000 available room nights to the market in 2001 (615 rooms x 334 nights), but the market actually accommodated almost 270,000 more room nights in 2001 than it did in 2000. This increase is attributed to both base demand growth, but more importantly to demand induced into the market by the new headquarters hotel. Even if only 70% to 80% is attributed to induced demand by the new Marriott (of both convention group, in-house group, and transient Marriott demand), this equates to roughly 189,000 to 216,000 room nights, or roundly 307 to 351 room nights per headquarters hotel guestroom. Moreover, this represents only for the first year of operation for the property; when the Marriott continues to ramp up to higher occupancy levels, there should be additional net increases in induced demand.

Contributing to the hotel's ability to induce this level of demand was the already very popular market dynamics of Indianapolis itself. The market was benefiting from strong occupancy levels, as the other many first class hotels in the market achieved occupancy levels bracketing the 70% mark. Because the Marriott was added among an array of other first class hotels, the CVB of Indianapolis is able to offer a large, competitive first class room block.

Tampa Marriott

The 708-room Tampa Marriott Waterside opened in February of 2000, and in its first partial year of operation the hotel achieved an occupancy level in the range of 65% to 70%. The occupancy of nearby hotels was minimally impacted in this otherwise strong demand year; for example, the Wyndham Harbour Island lost less than one point of occupancy in 2000, compared to the 1999 level, and held its rate largely unchanged for the year. The Marriott effectively induced between 70% and 80% of its captured demand into the local market in 2000, while the remaining amount of its capture was largely base demand growth otherwise already occurring within the downtown district.

This induced demand estimate equates to between 110,000 and 120,000 room nights as a result of the addition of the headquarters hotel to the defined downtown competitive set, or 155 to 170 room nights per headquarters hotel guestroom. The new Tampa property is also on the waterfront, next to the Aquarium, and next to the city's sports arena. Therefore, its location is favorable for capturing other demand sources.

Hyatt Regency Chicago

Those familiar with Chicago's convention center realize that the Hyatt there is not surrounded by any confluence of office buildings and leisure demand generators. This activity is focused well to the north of the hotel, along Michigan Avenue and the Loop. The Hyatt at the convention center is almost purely a meetings hotel, and was built after the older 614-room McCormick Inn was demolished.

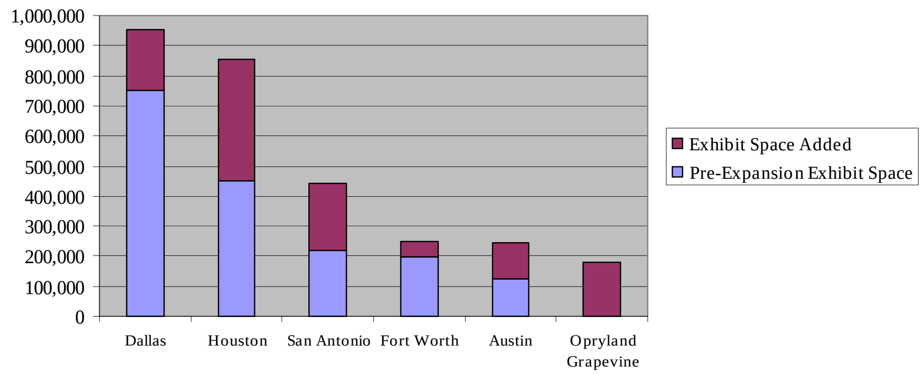
The Hyatt Regency opened in June of 1998, and in its first partial year of operation achieved an occupancy level between 45% and 50%, and in 1999 achieved an occupancy level between 60% and 65%. The previous group power houses of Chicago still experienced strong occupancies in 1999 and 2000, despite the opening of the new Hyatt. Group hotels such as the Chicago Hilton and Towers, Sheraton, Hyatt Chicago (another Hyatt property), and the Marriott maintained high occupancies during this time in the 75% to 80% range. Hence, the captured demand of the Hyatt is considered to be largely induced into the competitive market during this initial ramp up phase, which equated to between 175,000 and 200,000 total room nights, or 220 to 250 room nights per headquarters guestroom.

Induced Demand: The Statewide Convention Center Expansions and New Headquarters Hotels Factor

After reviewing the previous examples, this data suggests that the new San Antonio headquarters hotel could have the potential to induce between roundly 150 to 250 room nights per headquarters guestroom, or 150,000 to 250,000 room nights into this market. In further studying these figures, we note the following.

There has been unprecedented recent expansion in Texas exhibit space and new headquarters hotels over the last several years. Over the next five years the competitive landscape of Texas convention centers will transform, as the new headquarters hotels in Austin and Houston ramp-up in competitiveness and as the new Gaylord Texan in Grapevine does the same. This is intensifying the competitive level within the state for convention demand (the recent redevelopment of Fort Worth's convention center is also important to consider), and will drive the net gain of induced demand lower.

Texas Exhibit Space Additions: 2000 vs. 2004 (Square Feet)



Chicago added its hotel at quite a distance from the nearest major competitor and to a market that was already performing quite well; McCormick Place is also the nation's largest convention center. Tampa added its hotel to a market that was performing relatively well, but it was a totally new size and product for the CBD relative to what was there in the past. Indianapolis added its hotel in a market that was also performing well overall; and had little competition within the state of Indiana for convention demand (Indy is also a low-cost alternative to Chicago's McCormick Place).

With Gaylord's recent opening, the state now offers almost three million square feet of exhibit space among the six largest facilities, representing a 68% increase over the capacity of exhibit space available among the sample historically. Because a 68% increase in demand is not expected or realistic, demand will be dispersed among the available space and overall utilization levels are expected to moderate. Fortunately, San Antonio has a proven track record as a popular convention destination and has retained high occupancy levels due to its overall attractiveness to both meetings and leisure demand. Occupancy levels in the top-Riverwalk, full-service hotels continue to bracket the mid to high 70% level, reflecting an at-capacity situation. This popularity will buffer the potential negative impact of other state destination expansions.

Induced Demand: The Convention Center Capacity Factor

San Antonio is served by the Henry B. Gonzalez Convention Center, located in the downtown area, adjacent from the subject site as well as the existing Marriott Rivercenter and Riverwalk hotels.

San Antonio is a major convention destination in the state, and the city's Henry B. Gonzalez Convention Center was the first of Texas' major convention destination cities to complete an extensive expansion. According to the San Antonio CVB, the expansion, including renovation of the center's older space, spanned six years and cost $218 million. The Phase I expansion was completed in 1999 while the second phase, including the addition of 220,000 square feet of contiguous exhibit space and the addition of the 40,000-square-foot Ballroom C, was completed in May 2001. Combined, these expansion efforts enlarged the facility's footprint to approximately 1.3 million total square feet from roughly 540,000 square feet.

In total, the Henry B. Gonzalez Convention Center now features 436,815 square feet of contiguous exhibit space in four exhibit halls, three ballrooms totaling 90,678 square feet, and roughly 115,646 square feet of breakout rooms, in addition to pre-function and outdoor function space. The convention center complex also features the Lila Cockrell Theatre, a 2,536-seat Performing Arts Theatre. It should be noted that, in the event of future development of headquarter hotel facility, alterations to the existing facility and performing arts theatre will be made.

The added importance of the proximity and inclusion of the Alamodome into the convention complex must also be emphasized. Generally regarded as a sports complex and facility, the Alamodome is located within roughly one-quarter mile of the subject site and the existing convention center complex. Physical attributes of the venue encompass 160,000 square feet of contiguous exhibit floor space, 16 meeting rooms totaling over 30,000 square feet of conference space, 38 private club-level suites, and an 8-truck-bay loading dock and holding area. The Alamodome can be configured to accommodate groups ranging in size from 10,000 to just over 77,000 in attendance. Like Henry B. Gonzalez, the Alamodome features high-tech voice data, audio, and video systems, along with catering functions, and efficient vertical transportation; the facility also houses over 2,800 on-site parking spaces specific to the complex. Additionally, although located east of I-37, the Alamodome is serviced by all downtown trolleys as well as a pedestrian walkway from the convention center.

The following table illustrates important operating statistics for the convention facilities.

Convention Statistics

Year	Number of Room Nights	Percent Change	Number of Delegates	Percent Change
1993	707,379	—	424,838	—
1994	665,805	(5.9) %	384,307	(9.5) %
1995	744,954	11.9	400,751	4.3
1996	725,395	(2.6)	786,383	96.2
1997	670,039	(7.6)	417,492	(46.9)
1998	724,882	8.2	445,151	6.6
1999	678,014	(6.5)	406,539	(8.7)
2000	696,215	2.7	389,448	(4.2)
2001	712,189	2.3	419,970	7.8
2002	826,556	24.1	521,278	24.1
2003	709,081	(14.2)	424,951	(18.5)

Source: San Antonio Convention & Visitors Bureau, April 2004

According to officials at the CVB, the year-end bookings for CVB and hotel initiated room nights for 2003 were below historical levels. However, with the recent opening of the expansion and the completion of the renovation to the existing facility, the capacity of the convention center has been substantially increased. As an example, in June of 1999, the San Antonio Convention and Visitors Bureau (CVB) booked the largest convention in the city's history to date – the American Dental Association, which will bring 50,000 attendees and estimated delegate expenditures of $41,000,000 to San Antonio in October of 2007. Without the expansion, the city would not have been able to accommodate this group. Other future conventions with over 20,000 in attendance include Alcoholics Anonymous, with an estimate of 55,000 attendees in 2010, and the Evangelic Lutheran Church of America, with an estimate of 40,000 attendees in July of 2006.

This data illustrates that the center produced room nights for the market at a much greater level sporadically throughout the 1990s, while production dropped off in 1996, 1997, 1999, and 2003. The San Antonio Convention and Visitors Bureau (SACVB) attributed the decline to several factors, such as the vast renovation and expansion efforts which was occurring at the Henry B. Gonzalez Convention Center between 1999 and March 2001 as well as an increasingly competitive environment.

What this data does illustrate is that the capacity exists for major new demand to be generated from the center – were more conventions to elect to come to San Antonio over regional centers in Dallas, Fort Worth, Houston, and Austin as well as national destination such as San Francisco, San Diego, Denver, New Orleans, Atlanta, and Orlando, among others. With room nights generated in excess of 600,000 in select past years, adding the induced demand potential from the subject property is possible.

Induced Demand: The Turned-Away Demand Factor

We inquired about turn away demand for the center to study actual demand that is not accommodated due to several factors including, in some instances, the lack of a headquarters hotel. According to the Convention and Visitors Bureau, the data noted in the following tables outlines various conventions and related statistics which turned-down San Antonio due to circumstances such as conflicting dates, peak room night requirements, stipulations regarding the number of hotels used, and in some cases, the lack of an adjacent hotel.

Lost Business – Top Cities By Number of Groups

City Lost to: 2004	Number	Room Nights	Attendance
New Orleans	19	35,189	14,975
San Diego	14	43,443	17,045
Dallas	11	15,154	10,950
Chicago	8	8,175	4,367
Houston	8	5,551	6,350
Atlanta	7	6,653	3,685
Austin	7	2,204	978
Las Vegas	6	2,048	902
Orlando	6	18,177	7,800
Miami	4	8,866	2,886
Total for Year	90	145,460	69,938

City Lost to: 2003	Number	Room Nights	Attendance
Dallas	32	99,656	79,060
New Orleans	30	121,871	66,020
Houston	25	37,057	39,205
Las Vegas	23	66,486	26,093
Austin	22	18,763	30,120
Orlando	19	60,989	22,630
Phoenix	19	16,779	7,150
San Diego	19	21,864	10,760
Chicago	18	48,111	23,859
Atlanta	9	56,694	28,483
Total for Year	216	548,270	333,380

Source: San Antonio Convention & Visitors Bureau, April 2004

City Lost to: 2002	Number	Room Nights	Attendance
Dallas	26	38,114	23,080
Orlando	24	85,322	35,690
Austin	21	13,793	8,732
New Orleans	19	66,551	29,870
Phoenix	17	18,977	9,175
Las Vegas	16	33,726	13,132
Atlanta	15	40,245	22,460
Houston	14	86,094	64,670
Nashville	12	19,750	9,161
Chicago	10	30,282	17,060
Total for Year	174	432,854	233,030

City Lost to: 2001	Number	Room Nights	Attendance
Dallas	20	33,424	20,530
Las Vegas	20	91,469	35,985
Orlando	19	46,488	23,195
New Orleans	18	35,319	15,490
Austin	15	16,826	29,452
San Diego	12	24,622	14,505
Houston	10	8,190	8,735
Alburquerque	9	11,501	4,060
Atlanta	9	41,175	29,480
Nashville	7	20,046	14,400
Total for Year	139	329,060	195,832

Source: San Antonio Convention & Visitors Bureau, April 2004

Lost Business – Top Cities By Total Room Nights

City Lost to: 2004	Number	Attendance	Room Nights
San Fancisco	4	27,294	55,235
San Diego	14	17,045	43,443
New Orleans	19	14,975	35,189
Orlando	7	9,800	21,887
Sal Lake City	2	7,000	20,208
Chicago	9	7,867	17,950
Dallas	12	11,005	15,244
Minneapolis	3	8,230	14,876
Denver	1	7,500	12,406
Toronto	1	6,500	10,736
Total for Year	72	117,216	247,174

City Lost to: 2002	Number	Attendance	Room Nights
Boston	5	53,800	116,762
Houston	14	64,670	86,094
Orlando	24	35,690	75,322
New Orleans	19	29,870	66,551
Atlanta	15	22,460	40,245
Denver	6	20,442	38,238
Dallas	26	23,080	38,114
Las Vegas	16	13,132	33,726
Chicago	10	17,060	30,282
Toronto	2	8,000	23,220
Total for Year	137	288,204	548,554

City Lost to: 2003	Number	Attendance	Room Nights
New Orleans	30	66,020	121,871
Dallas	32	79,060	99,656
Las Vegas	23	26,093	66,486
Orlando	19	22,630	60,989
Atlanta	9	28,483	56,694
Chicago	18	23,859	48,111
Houston	25	39,205	37,057
Reno	6	16,375	28,965
San Francisco	7	12,252	28,135
Toronoto	2	9,000	25,244
Total for Year	171	322,977	573,208

Source: San Antonio Convention & Visitors Bureau, April 2004

City Lost to: 2001	Number	Attendance	Room Nights
Las Vegas	20	35,985	91,469
Orlando	19	23,195	46,488
Chicago	6	21,410	42,905
Denver	5	14,750	41,820
Atlatna	9	29,480	41,175
New Orleans	18	15,490	36,319
Dallas	20	20,530	33,424
San Francisco	5	10,519	31,324
Washington DC	2	10,200	30,785
Long Beach	3	5,350	26,096
Total for Year	107	186,909	421,805

Source: San Antonio Convention & Visitors Bureau, April 2004

Lost Business – Top Cities By Total Room Nights (1,000+ Peak)

City Lost to: 2004	Number	Room Nights	Peak	Attendance
San Francisco	2	53,766	7,000	26,800
San Diego	5	32,226	8,546	14,000
Salt Lake City	2	20,208	4,200	7,000
New Orleans	2	20,093	4,300	6,500
Minneapolis	1	14,580	1,800	8,000
Orlando	2	13,290	3,770	6,300
Chicago	2	12,775	3,500	4,500
Denver	1	12,406	2,700	7,500
Toronto	1	10,736	2,501	6,500
Miami	1	7,649	1,400	2,500
Total for Year	19	197,729	—	89,600

City Lost to: 2002	Number	Room Nights	Peak	Attendance
Boston	4	115,157	15,307	53,100
Houston	4	78,400	16,000	60,000
Orlando	6	58,266	13,230	25,000
New Orleans	2	36,300	8,500	19,500
Denver	2	32,459	5,300	18,142
Atlanta	4	30,409	7,800	18,600
Chicago	2	24,150	5,300	13,000
Toronto	2	23,220	4,845	8,000
Las Vegas	2	15,804	3,500	4,800
Dallas	3	15,551	4,363	10,300
Total for Year	31	429,716	—	230,442

City Lost to: 2003	Number	Room Nights	Peak	Attendance
New Orleans	6	98,069	19,950	56,000
Dallas	8	70,826	20,652	57,300
Orlando	8	49,294	13,890	17,800
Las Vegas	6	46,372	10,080	16,300
Chicago	3	28,034	6,600	13,000
San Francisco	3	25,848	5,300	11,202
Toronto	2	25,244	4,650	9,000
Seattle	3	22,941	4,400	5,800
Reno	2	20,575	3,900	13,300
Washington DC	2	18,384	5,752	6,500
Total for Year	43	405,587	—	206,202

Source: San Antonio Convention & Visitors Bureau, April 2004

City Lost to: 2001	Number	Room Nights	Peak	Attendance
Las Vegas	7	58,552	13,981	23,800
Denver	3	39,895	7,128	13,800
Chicago	2	38,895	7,000	18,000
Atlanta	4	34,740	9,000	26,500
San Francisco	3	28,645	6,300	9,769
Dallas	4	22,795	5,480	7,825
Orlando	3	26,320	5,950	13,100
San Diego	3	19,757	4,815	12,500
Anaheim	3	18,765	4,100	7,400
Boston	1	18,555	4,300	6,500
Total for Year	33	306,919	—	139,194

Source: San Antonio Convention & Visitors Bureau, April 2004

Also presented below is a listing of recent historical year as well as future year lost business based on the year in which the demand would have utilized San Antonio – the city, the convention center, and existing hotels. While it is important to note such lost business, it is also valid to note that, for future years, it is likely that not all business has been "lost"; more may be lost for those years noted based on booking cycles, convention patterns, and special peak needs or group circumstances. As a result, information relating to future lost opportunities has been qualitatively considered while forecasts of induced demand has been tabulated using more firm, historical lost business data.

Lost Opportunities – For Convention Year Lost

Lost For Year	Number of Groups	Total (Estimated) Lost Room Nights	Total (Estimated) Lost Attendance
1993	114	491,969	354,461
1994	141	646,811	464,086
1995	185	608,710	406,319
1996	280	944,851	547,650
1997	296	971,620	625,307
1998	291	880,439	480,965
1999	331	876,031	440,068
2000	407	1,287,481	679,714
2001	452	1,091,308	559,236
2002	539	1,582,759	754,328
2003	765	2,328,368	1,188,625
2004	677	1,697,342	837,457
2005	351	1,536,611	849,590
2006	187	1,265,481	689,465
2007	114	970,227	548,242
2008	72	778,857	483,026
2009	44	640,768	346,583
2010	32	457,506	310,815
2011	9	127,764	84,900
2012	11	181,613	97,250
2013	3	44,470	31,500
2014	3	53,761	31,500
2015	2	44,124	21,000
TOTALS:	5,306	19,508,871	10,832,087

Source: San Antonio Convention and Visitors Bureau

If the City were to add a hotel, there is no absolute guarantee these groups would book San Antonio – but one major reason for not booking would be overcome. We also note that the peak and total room nights figures represent all available hotels, not just the defined competitive set considered in our analysis. Therefore, we composed a matrix of possible scenarios regarding this data, under different assumptions as follows:

- Data is averaged for a four-year window loss.
- Data is then weighted by the share of this lost business that would actually then book the city after the addition of the hotel was actually

made. It is assumed that a portion would not book, and still opt for an alternative location due to conflicting dates, or a multitude of other factors revealed in Chapter Five. After consideration of 30%, 40%, and 50% conversion factors, we have utilized a 40% conversion factor as most probable for the subject city.

- Data is then weighted again by the share of this lost business that would be captured by the defined CBD set. During peak days of most major conventions, demand would have to stay outside of the defined CBD set due to the size of the group (utilizing other limited-service hotels within the CBD or other lodging alternatives within the city). This factor also reflects the increasing supply levels within this area, such as the La Quinta (under construction), the proposed Drury Inn & Suites, as well as a rumored expansion at a hotel near the Alamo. After consideration of 80%, 85%, and 90% capture factors, we have utilized an 85% capture factor as most probable for the subject's defined competitive set.

Analysis of Lost Business

	Historical Years for Lost Business				
Years	2001	2002	2003	2004	Average
Room Nights Lost (Total)	421,805	548,554	573,208	247,174	447,685
Share of Room Nights Lost That Could Have Been Booked					
50%	210,903	274,277	286,604	123,587	223,843
40%	168,722	219,422	229,283	98,870	179,074
30%	126,542	164,566	171,962	74,152	134,306
Share of Potential Room Nights (50% level) Captured by only Defined CBD Set					
95%	160,286	208,451	217,819	93,926	170,120
85%	143,414	186,508	194,891	84,039	152,213
80%	134,978	175,537	183,427	79,096	143,259

Therefore, based on this scenario analysis, the downtown set of hotels could benefit from roughly 150,000 additional room nights from the conversion of demonstrated lost business to captured demand with the addition of a convention headquarters hotel.

Demand induced by the brand-specific, in-house meetings business of the selected brand name (generated through national sales of the brand name) would need to be added to this figure, which would suggest an appropriate range of 20,000 to 40,000 room nights. For the purposes of our analysis, we have utilized a 30,000-room-night benchmark for this source of induced demand.

Induced Demand: HVS Estimate

Based on our analysis and the discussion noted in this chapter, we estimate that the addition of the subject property and the resulting, enhanced salability of the convention center - together with nationally-generated in-house meetings business of the selected brand name - would induce 180,000 room nights into the San Antonio market by its stabilized year (2011).

Because convention events typically spill into outlying hotels on peak nights – utilizing properties outside of the defined competitive set - the 180,000 figure represents demand induced only into the competitive set itself. Our estimate and phase-in of these induced demand figures are presented in the following table.

Induced Demand Calculation

	Induced Room Nights							
Market Segment	2004	2005	2006	2007	2008	2009	2010	2011
Commercial	0	0	0	0	0	0	0	0
Meeting and Group	0	0	0	0	112,500	142,500	165,000	180,000
Leisure	0	0	0	0	0	0	0	0
Total	0	0	0	0	112,500	142,500	165,000	180,000

Again, we note that this induced demand depends on the pre-selling of the hotel for months and years in advance of the hotel's opening. The following points are highlighted:

- Conventions typically book three to eight years in advance, and therefore with each passing month potential conventions may be lost for the critical opening years of the hotel. Our induced demand estimates depend on achieving an appropriate booking pace between now and the hotel's opening.

- Accordingly, it is imperative that approximately 60% to 80% of the phased-in *induced* demand – this is the demand above and beyond what would be typical for the market without the addition of the new hotel - for the opening year of the hotel be *definite* by one year prior to the hotel's opening date; for the purposes of our analysis, this date would be January 1, 2007.

- It is reasonable that the remaining roughly 25% of induced tentative demand could turn definite during the 12 months prior to the hotel's opening, between January 1 and December 31, 2007, or during the first six months of operation for later months in the year.

- We would expect approximately 30% to 50% of the induced demand for the opening year would comprise *definite* bookings two years prior to the hotel's opening date, or by January 1, 2006. It is again reasonable to assume that the remaining roughly 50% of tentative bookings would turn definite between January 1, 2006 and the opening date of the hotel.

9. Projection of Occupancy

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. Consequently, a well-documented forecast of occupancy is essential. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a competent hotel management team to achieve an optimal mix of occupancy and average rate.

Potential Demand

Once market segment growth rates and degrees of latent demand are estimated, the annual marketwide potential demand can be determined. Potential demand is essentially the amount of demand which would be possible in a market which has no seasonality restrictions (e.g. the maximum monthly occupancy is 100% each month). Thus, the potential demand equates to the base year accommodated demand, inflated at the growth rates set forth for each market segment, plus any estimation of unaccommodated or induced demand. The following table details the potential annual room night demand for the subject property’s market area.

Potential Demand

	Potential Room Nights							
Market Segment	2004	2005	2006	2007	2008	2009	2010	2011
Commercial	121,285	122,498	124,335	126,200	127,462	128,099	128,740	129,384
Meeting and Group	842,477	859,327	883,678	905,769	1,047,880	1,087,233	1,114,457	1,134,204
Leisure	519,553	527,346	536,614	541,980	554,839	560,387	563,189	566,005
Total	1,483,314	1,509,170	1,544,627	1,573,950	1,730,181	1,775,720	1,806,386	1,829,593

Accommodated Demand and Marketwide Occupancy

Based upon a review of the market dynamics in the proposed subject property's competitive environment, we have forecast growth rates for each market segment. We have also analyzed the possible existence of unaccommodated demand in the market (we found there to be a negligible amount), as well as the potential for induced demand to occur in the future. Using the calculated potential demand for the market, we have then determined marketwide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projections of market demand growth. This includes total occupied room nights, as well as any residual unaccommodated demand in the market.

Accommodated Demand

	2004	2005	2006	2007	2008	2009	2010	2011
Commercial								
Occupied Room Nights	121,285	122,174	124,319	125,490	127,462	128,099	128,740	129,303
Residual Demand	0	324	16	710	0	0	0	80
Accommodated Demand Growth	0.5 %	0.7 %	1.8 %	0.9 %	1.6 %	0.5 %	0.5 %	0.4 %
Meeting and Group								
Occupied Room Nights	842,477	857,056	883,566	900,680	1,047,880	1,087,233	1,114,457	1,133,516
Residual Demand	17,474	20,094	15,514	20,876	0	0	0	688
Accommodated Demand Growth	-2.0 %	1.7 %	3.1 %	1.9 %	16.3 %	3.8 %	2.5 %	1.7 %
Leisure								
Occupied Room Nights	519,553	525,953	536,546	538,920	554,839	560,387	563,189	565,647
Residual Demand	8,396	9,916	7,361	10,425	0	0	0	358
Accommodated Demand Growth	1.0 %	1.2 %	2.0 %	0.4 %	3.0 %	1.0 %	0.5 %	0.4 %
Totals								
Occupied Room Nights	1,483,314	1,505,183	1,544,431	1,565,090	1,730,181	1,775,720	1,806,386	1,828,467
Residual Demand	25,871	30,333	22,890	32,011	0	0	0	1,127
Accommodated Demand Growth	-0.8 %	1.5 %	2.6 %	1.3 %	10.5 %	2.6 %	1.7 %	1.2 %
Available Room Nights per Year	2,059,330	2,059,330	2,127,293	2,127,293	2,492,293	2,492,293	2,492,293	2,492,293
Available Room Night Growth	0.0 %	0.0 %	3.3 %	0.0 %	17.2 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	72.0 %	73.1 %	72.6 %	73.6 %	69.4 %	71.2 %	72.5 %	73.4 %

We forecast marketwide occupancy will remain in the mid to low 70-percent range in 2004 and 2005, which reflects the less dramatic performance which occurred prior to recent and constant supply additions. The San Antonio market has realized consistently mature and strong occupancy levels with little major fluctuations, positive or negative, caused by constant supply changes and/or convention and tourism booking patterns. However, it appears as though downtown supply additions among various product segments (limited-service and extended-stay) and sub-markets throughout the San Antonio area, which are not included in the defined competitive market, may be having an impact on occupancy growth, as well as average rate growth. As recent, new supply stabilizes in the market, added to the introduction of the proposed subject property in 2008, we expect the market to decline somewhat, to the high-60% level by that time. We have forecast the market to rebound to low- to mid-70% range by 2011; it should be noted that this assumes the increasingly competitive regional and national convention destination markets proposed or recently on-line discussed throughout this report. As previously shown, the trend from STR (defined downtown competitive set) indicated a rounded occupancy level of near 75.0% in 2002, before declining to roundly 73.0% in 2003. Conversely, the city-wide STR trend noted a collective occupancy high of 64.0% in 2000 before slight declines resulted in occupancy levels between 62.0% and 63.0% annually from 2001 through 2003.

Upon the opening of the subject in 2008, we have forecast an occupancy decline to 69.4%, as the considerable influx of rooms is felt by the market. Because the date of this report is early 2004, and many conventions have already booked their locations for 2007 through 2009 and beyond, it will be difficult to get full-production in the early operating years of the hotel. Thus, the subject hotel will be a greater threat to local hotels in these first years of operation, as the hotel targets more local sources of hotel demand to fill its space.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive posture within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

In this equation, market share represents that portion of total market demand accommodated by a property and fair share represents the subject hotel's portion of the total supply (calculated as the subject's room count divided by the total supply of the market at large).

If a property with a fair share of 5% is capturing 5% of the market demand in a given year, then its occupancy will equal the marketwide occupancy, and its penetration rate will equal 100% (5% ÷ 5% = 100%). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the marketwide occupancy, and its penetration rate will be greater than 100%. For example, if a property's fair share is 5% and its market share is 7%, then its penetration rate is 140% (7% ÷ 5% = 140%). Conversely, if the property captures less than its fair share, then its occupancy will be below the marketwide average, and its penetration rate will be less than 100%.

Penetration rates can be calculated for each market segment of a property, and for the property as a whole. For example, leisure segment penetration can be determined by: 1) dividing the subject property's leisure room nights captured (property's total room nights captured multiplied by property's leisure segment percentage) by: 2) the hotel's fair share of total areawide leisure demand (property's fair share percentage multiplied by the market's total leisure room night demand). Simplifying the formula, a hotel's market share percentage divided by its fair share percentage equals its market penetration. In essence, a penetration above 100% in a certain market segment indicates that the hotel is capturing more than its fair share of that source of demand, while a penetration rate below 100% indicates that a hotel is capturing less than its fair share of demand. A penetration of 100% indicates that the hotel is capturing its pro-rata share of the market segment's room night demand.

Explanation of Market Share and Penetration Rate Adjustment

The subject's occupancy is forecast by estimating the hotel's penetration by market segment for each year of the forecast period. The estimation of penetration rates is based upon our review of the historical penetration rates of the subject and its competitors. If the subject hotel and all of its competitors are expected to remain stable in their ability to penetrate the market, then the historical penetration rates may be appropriately projected to remain the same throughout the forecast period. However, when additions to supply are anticipated or if a particular hotel is expected to alter its ability to compete in some way (e.g. through a refurbishment or change in brand or management), then penetration rates for all the hotels in the market must be adjusted. The reason for the need to adjust the penetration rates of all the hotels in the market is due to the circular calculation of the penetration rate. A hotel's penetration rate is calculated as its market share of demand divided by its fair share of demand. If one hotel's penetration rate increases, thereby increasing its market share and leaving less demand for the other hotels in the market to capture, then the penetration rates of the remaining hotels automatically decline (all other things being equal).

For example, let us assume that a hotel is slated for a renovation and repositioning, thus enabling the hotel to improve its occupancy through increased market penetration. A higher penetration by one hotel will result in a larger capture of room nights by that hotel, thus leaving a reduced number of room nights to be shared by the rest of the competitive set. The additional room nights captured by this hotel will come out of the same finite pie of demand from which the other hotels in the market draw their demand. Any inducement of new demand due to the repositioning will have already have been built into the forecast of marketwide demand in the forecast of marketwide occupancy.

A similar impact is felt when a new hotel is added to the market. Penetration rates for the new hotel are forecast. The penetration rates are multiplied by the hotel's fair share percentage (calculated as the hotel's fair share of supply) to calculate the hotel's market share percentage. The hotel's market share percentage is then multiplied by the total demand forecast for that market segment in that year, resulting in the room nights captured by the new hotel in that segment. When the new hotel enters the market the penetration of all the existing hotels will automatically be impacted because they will each be capturing a smaller amount of the demand pie once the new hotel takes its share. If the new hotel captures less then its fair share of demand then the penetration rates of the existing hotels will increase, and alternatively, if the new hotel captures greater than its fair share of demand then the penetration rates of the existing hotels will decline. Thus, the penetration rate of a stable hotel is often impacted year to year by the penetration rates of its competitors.

An existing hotel may retain the same number of room nights captured in a particular market segment when a new hotel is added to the market, but that hotel's penetration rate must increase to do so. This is because the existing hotel's fair share percentage declines as new rooms are added to the market, and so to remain at the same level of room night capture its penetration rate must increase (rooms night captured = fair share x penetration rate x total market segment demand). A complete description of this process is presented in an addendum to this report.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competition are set forth for each segment for the base year, 2003. The results are used as a basis for the positioning of the subject property, as well as our forecast of penetration rates for the subject (after its opening) and each competitive hotel into the future.

Historical Penetration Rates

Property	Commercial	Meeting and Group	Leisure	Overall
Marriott Rivercenter	97 %	146 %	58 %	112 %
Marriott Riverwalk	97	146	58	112
Hyatt Regency	64	117	90	103
Westin Riverwalk	200	103	94	107
Hilton Palacio Del Rio	61	102	99	98
Secondary Competition	100	68	129	91

Historical meeting and group penetration rates ranged widely from 68% to 146%. The best performers for demand in this segment were the two Marriott hotels, often marketed as one facility to larger convention peak room night needs, and the Hyatt Regency. Commercial demand penetration ranged from 61% to 200%, with the Westin Riverwalk leading the set. Also strong in this segment was the secondary competition classification, which features a myriad of boutique, historic and often upscale facilities such as La Mansion del Rio, the Plaza San Antonio Marriott, the Sheraton Gunter, and the Wyndham St. Anthony. Leisure penetration rates ranged from 58% to 129%. The secondary competition achieved the highest penetration in this segment, followed closely by the well-located Hilton Palacio Del Rio.

Projected Penetration Rates by Market Segment

Penetration rates for the proposed subject property and each of the competitive hotels have been forecast based upon the historical performance of each property and the changes we foresee in the marketplace going forward. Changes in market share and penetration rates are expected due to variables such as the recovery in the mid-week corporate market and the entry of the subject property which will focus primarily on convention-related demand.

The following tables set forth, by market segment, the projected penetration rates for the proposed subject property and each hotel in the competitive set throughout the projection period.

Commercial Segment Adjusted Penetration Rates

Hotel	2004	2005	2006	2007	2008	2009	2010	2011
Marriott Rivercenter	96 %	96 %	95 %	95 %	100 %	99 %	99 %	99 %
Marriott Riverwalk	97	97	96	96	101	100	100	100
Hyatt Regency	65	67	69	69	72	72	72	72
Westin Riverwalk	198	195	194	193	204	203	202	202
Hilton Palacio Del Rio	60	59	59	59	62	61	61	61
Secondary Competition	100	101	102	101	107	106	106	106
Proposed Subject Property	—	—	—	—	66	69	70	70
Proposed Riverwalk Suites	—	—	86	97	114	117	117	117

Meeting and Group Segment Adjusted Penetration Rates

Hotel	2004	2005	2006	2007	2008	2009	2010	2011
Marriott Rivercenter	142 %	142 %	144 %	143 %	137 %	135 %	134 %	134 %
Marriott Riverwalk	142	138	137	136	131	129	128	128
Hyatt Regency	116	117	115	115	110	108	107	107
Westin Riverwalk	100	99	99	99	95	94	93	93
Hilton Palacio Del Rio	100	99	99	98	94	93	92	92
Secondary Competition	71	72	73	73	70	69	69	68
Proposed Subject Property	—	—	—	—	125	132	136	137
Proposed Riverwalk Suites	—	—	82	92	92	91	90	90

Leisure Segment Adjusted Penetration Rates

Hotel	2004	2005	2006	2007	2008	2009	2010	2011
Marriott Rivercenter	57 %	57 %	56 %	56 %	63 %	62 %	62 %	62 %
Marriott Riverwalk	57	57	56	56	63	62	62	62
Hyatt Regency	87	86	85	85	96	95	95	95
Westin Riverwalk	92	91	89	89	100	100	100	100
Hilton Palacio Del Rio	97	97	95	95	107	106	106	106
Secondary Competition	131	132	133	133	150	149	149	149
Proposed Subject Property	—	—	—	—	27	31	32	32
Proposed Riverwalk Suites	—	—	96	97	113	112	112	112

In the meeting and group segment, the subject reaches a positioned 137% penetration rate by the fourth operating year. The hotel is appropriately shown as the market leader in this segment, as would be expected for the city's convention headquarters hotel.

Because conventions take considerable lead time to book, and meeting planners often want to visit the property before making a commitment to the hotel, this type of demand requires a ramp-up period over many years. In the interim, we would expect the subject to accommodate moderate transient demand, which will then be out-paced as the group base is built within the hotel. As such, the commercial and leisure penetration rates of the subject property are forecast to begin at moderate levels and realize only limited, if any, growth over the course of the first few years of operation.

Based on the preceding analyses, the proposed subject property's occupancy forecast is set forth as follows, with the projected penetration rates used as a basis for calculating the amount of captured market demand.

Forecast of Subject Property's Occupancy

Market Segment	2008	2009	2010	2011
Commercial				
Demand	127,462	128,099	128,740	129,303
Market Share	9.7 %	10.1 %	10.2 %	10.2 %
Capture	12,308	12,947	13,184	13,242
Penetration	66 %	69 %	70 %	70 %
Meeting and Group				
Demand	1,047,880	1,087,233	1,114,457	1,133,516
Market Share	18.1 %	19.3 %	19.9 %	20.1 %
Capture	190,104	210,091	221,303	227,487
Penetration	125 %	132 %	136 %	137 %
Leisure				
Demand	554,839	560,387	563,189	565,647
Market Share	3.9 %	4.5 %	4.7 %	4.7 %
Capture	21,666	25,389	26,355	26,470
Penetration	27 %	31 %	32 %	32 %
Total Room Nights Captured	224,078	248,428	260,842	267,198
Available Room Nights	362,999	365,000	365,000	365,000
Subject Occupancy	62 %	68 %	71 %	73 %
Marketwide Available Room Nights	2,492,293	2,492,293	2,492,293	2,492,293
Fair Share	15 %	15 %	15 %	15 %
Marketwide Occupied Room Nights	1,730,181	1,775,720	1,806,386	1,828,467
Market Share	13 %	14 %	14 %	15 %
Marketwide Occupancy	69 %	71 %	72 %	73 %
Total Penetration	89 %	96 %	99 %	100 %

Based on the positioned penetration rates by segment, the overall penetration rate of the subject property is forecast to reach 100%, at its fair share, due to its placement as the headquarters hotel. This performance suggests a considerably strong level for a headquarters hotel facility; the San Antonio market is considered a successful and well-performing, mature hotel market with vast tourist, leisure, and convention demand already serving as a positive basis for demand.

The following table summarizes the proposed subject property's projected market segmentation.

Subject Property's Market Segmentation

	2008	2009	2010	2011
Commercial	5 %	5 %	5 %	5 %
Meeting and Group	85	85	85	85
Leisure	10	10	10	10
Total	100 %	100 %	100 %	100 %

As shown, we have forecast the hotel to house a significant base of group business, at roundly 85% of captured demand, which reflects its position as the city's primary headquarters property.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 1,000 x 365) produces the projected occupancy percentage.

Subject Property's Occupancy Forecast

	2008	2009	2010	2011
Total Room Nights Captured	224,078	248,428	260,842	267,198
Available Room Nights	362,999	365,000	365,000	365,000
Subject Occupancy	61.7 %	68.1 %	71.5 %	73.2 %
Rounded	62 %	68 %	71 %	73 %

We have chosen to use a stabilized occupancy level of 73%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability. For the purpose of forecasting income and expense, we will use the following occupancy levels.

Forecast of Occupancy

Year	Subject Occupancy
2008	62 %
2009	68
2010	71
2011	73

10. Average Rate Analysis

One of the most important considerations in estimating the financial performance of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

The Concept of Average Rate

A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates, and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays, and weekends. Different types of rooms may also command varying rates, and thus have an impact on the overall average rate. The following is a description of several typical rate categories.

- *Rack Rate* – An undiscounted room rate generally given to anyone who does not qualify for or request a discounted rate. The term is derived from the room rack (now a computer terminal) at the front desk, which contains information about each room's rate, including the highest amount that can be charged for that type of unit. When a hotel is expected to be full during a certain period or when a guest arrives without a reservation, the rack rate is usually the only rate available. The average rate is almost always lower than the rack rate.
- *Published Rate* – The rate listed in directories and other publications. This rate is usually quoted as a range (i.e., single: $70-$100), and represents the various rack rates for specific types of accommodations. Published rates usually set the upper limit of average rate, and average rates tend to be closest to published rates in the case of single (rather than double) rooms.

- *Commercial Rate* – A discounted rate available to certain commercial travelers. Some hotels charge all commercial travelers a commercial rate upon request, while others offer it only to established accounts based on their projected use of the hotel. Commercial rates vary because they can be negotiated between the business and the hotel. These rates are always below the rack and published rates and, depending on the market mix, may approximate the property's average rate.
- *Contract Rate* – A discounted rate available to specific high-volume users, such as airlines, convention groups, and bus tours. Contract rates are negotiated and often apply to a block of rooms that are reserved on an ongoing basis and paid for regardless of use. Depending on the amount of use and the time it occurs, a contract rate may be heavily discounted and thus significantly lower than both the average rate and the commercial rate.
- *Complimentary Rooms* – It is customary for hotels to provide rooms to very important guests on a complimentary basis. When performing a room night analysis, complimentary rooms should be included in the occupancy projection, because these occupied rooms represent actual demand (although they generate no revenue). However, the inclusion of complimentary rooms in the occupancy lowers the calculated average rate, and thus the treatment of complimentary rooms in the average rates obtained from competitive properties must be consistent in order to draw an accurate rate comparison.

In forecasting average room rate for a proposed hotel, the average rates of similar hotels operating in the same market are examined as a starting point and future rate changes are forecast based on market conditions and the proposed property's relative competitiveness. The process is outlined as follows:

1. The average room rates for the competition are researched to position rates for the subject, which reflect market conditions and competent management.
2. Factors that impact future trends in room rate change are analyzed and projected annual inflationary changes are then quantified.
3. The proposed subject property's average room rate is quantified and projected into the future utilizing either the competitive positioning or the market segmentation method. These two methods are described as follows:

Competitive Positioning Method: Competitive positioning starts with the analysis of the average room rates currently achieved by the local competitive hotels. These rates establish a range within which the room rate for the subject property should fall. The likely average rate for the subject property is then positioned relative to the average rate of the hotel in the sample that is most similar in quality, size, facilities, amenities, market orientation, location, management, image and affiliation. Upward and/or downward adjustments are made to the subject's average rate to reflect any differences between the comparable and the subject that might be realized by affiliation or positioning.

Market Segmentation Method: In applying the market segmentation method, an average room rate is developed by individual market segments. This method starts with the previously developed demand forecast for the subject property, which includes a projection of the number of room nights captured for each market segment. Using the room rates charged on a segmented basis by the competitive properties as a base, a room rate estimate is developed for each market segment. The estimated room rate for each market segment is then multiplied by the projected number of room nights captured and the results are totaled to yield the total rooms revenue. An average rate can be calculated by dividing the total rooms revenue by the number of rooms occupied. The advantage of the market segmentation method is its ability to adjust the projected average room rate for changes in market mix. The disadvantage is that detailed rate data for each competitor in the market is not usually public knowledge and is difficult, if not impossible, to obtain.

Competitive Position

Although the average rate analysis presented here follows the occupancy projections, these two statistics are highly correlated; in reality, one can not project occupancy without making specific assumptions regarding average rate. The following table summarizes the 2003 average rate levels of the identified competitors.

Average Rate of the Competitors

Property	Average Room Rate
Marriott Rivercenter	$150-$160
Marriott Riverwalk	140-150
Hyatt Regency	130-140
Westin Riverwalk	140-150
Hilton Palacio Del Rio	140-150
Emily Morgan Hotel	120-130
Sheraton Hotel Gunter	90-100
Wyndham Grand St. Anthony	90-100
Holiday Inn Riverwalk	110-120
Preferred La Mansion Del Rio	170-180
Homewood Suites Riverwalk	110-120
Menger Hotel	110-120
Adam's Mark	100-110
Four Points Riverwalk North	70-80
Holiday Inn Crockett	80-90
Marriott Plaza San Antonio	120-130
Hotel Valencia	120-130
Weighted Average	$131

This data illustrates an average rate range, from $70.00 to $80.00 and from $140.00 to $150.00. The Marriott Rivercenter and Riverwalk hotels achieve among the highest rates within the larger, full-service hotel segment. The Preferred La Mansion Del Rio, an upscale, benchmark hotel facility, achieved the highest rate in the market; the Marriott Rivercenter followed by the Marriott Riverwalk, Hyatt Regency, Westin Rieverwalk, and Hilton fall just below that of the La Mansion. The Marriott Riverwalk, Westin, and Hilton all achieved average rates in the $140.00 range due to their considerable citywide convention demand segmentation which is complimented by higher-rated leisure and modest corporate transient demand (higher rated). The lower rated hotels in the market, the Four Points and the Holiday Inn Crockett, achieved the lowest rate in comparison to the market, primarily as a result of their product offerings and/or condition as well as the rate structures associated with contract and lower-rated group/tour and travel demand accommodation.

Market Segmentation

This technique begins with an analysis of the room rates commanded by local hotels in each market segment. Using this information, we can forecast the subject property's rate on a segment-by-segment basis. The projected rate in each segment is then multiplied by the number of room nights the hotel is expected to capture in that segment (as determined earlier in this analysis). These amounts are totaled, yielding the overall rooms revenue. Average rate is then calculated by dividing the property's total rooms revenue by the estimated number of occupied rooms. The advantage of the market segmentation method is its ability to reflect anticipated changes in the subject property's market mix and their impact on average rate.

Average rate can be projected by considering anticipated changes in the subject property's demand mix and the rates that can be commanded in each market segment. The proposed subject property has been positioned with an estimated average rate of roundly $150.00 (rounded), in 2003 dollars. The average rates by segment for the subject property have been positioned at $164.00 in the commercial segment, $150.00 in the meeting and group segment, and $140.00 in the leisure segment. These rates are well-supported by data gathered from the competitive market and suggest that, even though the proposed hotel is anticipated to accommodate higher levels of convention group demand, the property would achieve rates similar to existing average rate leaders such as the Marriott Riverwalk and Marriott Rivercenter.

Average Rate Increases

It is important to note that hotel room rate increases do not necessarily conform to the underlying monetary inflation rate, because lodging facilities are influenced by market conditions such as the relationship between supply and demand. A hotel's ability to raise room rates is affected by a number of factors, including the following.

- Supply and Demand Relationships – The relationship between supply and demand is one of the factors that determine hotel occupancies and average rates. Strong markets, where lodging demand is increasing faster than supply, are often characterized by rate growth that exceeds inflation. Markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates.
- Inflationary Pressures – Price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterized by a healthy supply and demand relationship.

- Improving the Competitive Standard – When a new lodging facility enters a mature market, its rates may be set higher than the marketwide average in an effort to justify the development costs. This may allow other competitors to achieve corresponding gains by effectively raising the amount the market will bear. However, if the addition to supply has a severe impact on the occupancy levels of other hotels, price competition may ensue.
- Property-Specific Improvements – Changes that make a hotel more or less attractive to guests can have an impact on average rate. An expansion, renovation, upgrading, or the introduction of additional facilities and amenities may enable greater-than-inflationary room rate increases. Likewise, deferred maintenance may make a property less competitive, engendering a decline in room rates.

In determining average rate projections, changes that occur prior to occupancy stabilization are generally attributable to factors that are specific to the property and the market. After a hotel achieves a stabilized occupancy, room rates are generally expected to continue to increase at the underlying inflation rate throughout the remainder of the projection period.

As noted by the Smith Travel Research trend illustrated previously in our report, and confirmed by our fieldwork, average rates continue to show stagnation and even signs of decline after growth through 2002. Strong decline was even noted for 2003, as hotels competed for demand and offered more competitive room rates. Somewhat lower convention demand also prompted less compression. Because no new major influx of demand is anticipated and the regional and national economy recovery has been slow to date, only minimal positive average rate change is expected in the near term. Similarly, the anticipation of an increasingly competitive meeting and convention market, specifically on a regional basis, is expected to further hamper rate growth as many new facilities (Austin Hilton, Houston Hilton, and Gaylord) offer introductory and promotional average rates to groups. Average rate change would again be expected to slow after the entry of the subject property.

Based on these considerations, the following table identifies the positioned segmented average rates and the growth rates that have been applied to each rate through the stabilized year.

Forecast of Average Rate Growth

	2003 Average Room Rate	Projected Growth Rate 2004	2005	2006	2007	2008	2009	2010	2011
Commercial	$164.00	-2.5 %	1.5 %	2.0 %	2.0 %	2.5 %	3.0 %	3.0 %	3.0 %
Meeting and Group	150.00	2.0	1.0	1.5	2.5	3.0	3.5	3.0	3.0
Leisure	140.00	1.5	1.0	1.5	2.0	2.5	3.0	3.0	3.0

The following table illustrates the methodology we have used for projecting the subject property's average rate.

Subject Property's Average Rate Forecast

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commercial									
Average Rate Growth	—	-2.5 %	1.5 %	2.0 %	2.0 %	2.5 %	3.0 %	3.0 %	3.0 %
Captured Room Nights						12,308	12,947	13,184	13,242
Rooms Revenue						$2,130,279	$2,308,134	$2,420,803	$2,504,340
Average Rate	$164.00	$159.90	$162.30	$165.54	$168.86	$173.08	$178.27	$183.62	$189.13
Meeting and Group									
Average Rate Growth	—	2.0 %	1.0 %	1.5 %	2.5 %	3.0 %	3.5 %	3.0 %	3.0 %
Captured Room Nights						190,104	210,091	221,303	227,487
Rooms Revenue						$31,479,765	$36,007,094	$39,066,534	$41,362,865
Average Rate	$150.00	$153.00	$154.53	$156.85	$160.77	$165.59	$171.39	$176.53	$181.83
Leisure									
Average Rate Growth	—	1.5 %	1.0 %	1.5 %	2.0 %	2.5 %	3.0 %	3.0 %	3.0 %
Captured Room Nights						21,666	25,389	26,355	26,470
Rooms Revenue						$3,299,717	$3,982,783	$4,258,290	$4,405,177
Average Rate	$140.00	$142.10	$143.52	$145.67	$148.59	$152.30	$156.87	$161.58	$166.42
Total									
Average Rate Growth	—	—	—	—	—	—	3.4 %	3.0 %	3.0 %
Captured Room Nights						224,078	248,428	260,842	267,198
Rooms Revenue						$36,909,760	$42,298,011	$45,745,627	$48,272,381
Average Rate (Before Discount)						$164.72	$170.26	$175.38	$180.66
Average Rate Penetration	—	—	—	—	—	116.7 %	117.1 %	117.1 %	117.1 %
Marketwide Average Rate Growth	—	-1.0 %	1.5 %	1.5 %	2.5 %	3.0 %	3.0 %	3.0 %	3.0 %
Marketwide Average Rate	$131.08	$129.77	$131.71	$133.69	$137.03	$141.14	$145.38	$149.74	$154.23

We have forecast a 3.0% and 1.0% room rate discount in the first two respective projection years of the subject property's operation. This accounts for needed discounts which may be necessary in the opening months to attract groups and demand initially to the property. The following average rates represent calendar years beginning January 1, 2008, and will be used to project the subject property's rooms revenue.

Forecast of Average Rate

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2008	62 %	164.72	3.0 %	159.78
2009	68	170.26	1.0	168.56
2010	71	175.38	—	175.38
2011	73	180.66	—	180.66

11. Projection of Income and Expense

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The 10-year period reflects the typical holding period of large real estate assets such as hotels. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Comparable Operating Statements

In order to project future income and expense for the proposed subject property, we have included a sample of individual comparable operating statements from our database of hotel statistics.

The following operating data reflects the performances of six convention-oriented, full-service hotels. For comparison purposes, we have included a management fee of 3.0% of total revenue and a reserve for replacement expense of 5.0% of total revenue in these comparable statements. These levels are considered typical in today's market for a full-service hotel. All financial data is presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). A composite statement is also illustrated.

Comparable Operating Statements Ratio to Sales

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Number of Rooms:	1,000 - 1,200	1,100 - 1,300	600 - 700	700 - 800	700 - 800	700 - 800
Total Meeting Space:	85,000	180,000	67,000	42,000	33,000	55,000
Grand Ballroom:	25,000	25,000	16,000	10,000	8,000	20,000
Total F&B Outlets:	3	4	3	3	2	2
Days Open:	365	365	365	365	365	365
Occupancy:	64%	66%	64%	61%	70%	68%
Average Rate:	$145	$132	$116	$139	$152	$113
REVENUE						
Rooms	63.1 %	55.0 %	60.2 %	61.8 %	72.6 %	56.1 %
Food & Beverage	31.0	38.2	35.2	34.8	21.2	35.7
Telephone	2.4	2.3	1.3	1.5	2.5	1.8
Other Income	3.4	4.6	3.3	1.9	3.7	6.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	24.1	24.1	23.3	20.1	23.3	24.5
Food & Beverage	68.2	63.5	75.4	71.2	76.3	71.6
Telephone	58.2	52.6	114.1	80.2	35.0	54.1
Total	38.0	39.4	44.0	38.4	34.6	44.0
DEPARTMENTAL INCOME	62.0	60.6	56.0	61.6	65.4	56.0
OPERATING EXPENSES						
Administrative & General	6.1	6.0	6.4	6.7	6.7	7.0
Marketing	4.8	9.2	7.5	5.5	6.0	7.3
Property Operations & Maintenance	4.3	4.4	3.8	4.1	4.0	4.4
Energy	3.3	2.5	3.3	3.0	2.6	3.5
Total	18.5	22.1	21.0	19.3	19.4	22.3
HOUSE PROFIT	43.5	38.5	35.0	42.3	46.0	33.7
Management Fee	3.0	3.0	3.0	3.0	3.0	3.0
INCOME BEFORE FIXED CHARGES	40.5	35.5	32.0	39.3	43.0	30.7
FIXED EXPENSES						
Property Taxes	2.2	3.0	3.3	5.1	9.6	2.6
Insurance	1.5	1.1	1.1	1.0	0.9	0.5
Reserve for Replacement	5.0	5.0	5.0	5.0	5.0	5.0
Total	8.7	9.1	9.4	11.1	15.5	8.1
NET INCOME	31.8 %	26.4 %	22.6 %	28.2 %	27.5 %	22.6 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

Comparable Operating Statements Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Number of Rooms:	1,000 - 1,200	1,100 - 1,300	600 - 700	700 - 800	700 - 800	700 - 800
Total Meeting Space:	85,000	180,000	67,000	42,000	33,000	55,000
Grand Ballroom:	25,000	25,000	16,000	10,000	8,000	20,000
Total F&B Outlets:	3	4	3	3	2	2
Days Open:	365	365	365	365	365	365
Occupancy:	64%	66%	64%	61%	70%	68%
Average Rate:	$145	$132	$116	$139	$152	$113
REVENUE						
Rooms	$33,762	$32,115	$26,995	$31,117	$38,539	$27,935
Food & Beverage	16,596	22,305	15,797	17,518	11,261	17,798
Telephone	1,310	1,320	561	743	1,321	910
Other Income	1,845	2,687	1,488	962	1,988	3,141
Total	53,514	58,427	44,842	50,340	53,109	49,785
DEPARTMENTAL EXPENSES						
Rooms	8,127	7,743	6,279	6,251	8,981	6,849
Food & Beverage	11,324	14,168	11,906	12,472	8,594	12,740
Telephone	762	694	640	596	462	493
Total	20,333	23,011	19,708	19,319	18,375	21,930
DEPARTMENTAL INCOME	33,181	35,416	25,133	31,021	34,734	27,855
OPERATING EXPENSES						
Administrative & General	3,258	3,502	2,873	3,383	3,578	3,490
Marketing	2,557	5,397	3,363	2,789	3,190	3,646
Property Operations & Maintenance	2,297	2,578	1,702	2,051	2,121	2,207
Energy	1,791	1,434	1,493	1,501	1,387	1,754
Total	9,904	12,911	9,431	9,725	10,277	11,098
HOUSE PROFIT	23,277	22,505	15,702	21,296	24,457	16,757
Management Fee	1,605	1,753	1,345	1,510	1,593	1,494
INCOME BEFORE FIXED CHARGES	21,672	20,752	14,357	19,786	22,863	15,263
FIXED EXPENSES						
Property Taxes	1,193	1,748	1,490	2,590	5,096	1,312
Insurance	817	643	498	510	461	262
Reserve for Replacement	2,676	2,921	2,242	2,517	2,655	2,489
Total	4,686	5,313	4,229	5,617	8,212	4,063
NET INCOME	$16,986	$15,439	$10,128	$14,169	$14,651	$11,200

Comparable Operating Statements Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Number of Rooms:	1,000 - 1,200	1,100 - 1,300	600 - 700	700 - 800	700 - 800	700 - 800
Total Meeting Space:	85,000	180,000	67,000	42,000	33,000	55,000
Grand Ballroom:	25,000	25,000	16,000	10,000	8,000	20,000
Total F&B Outlets:	3	4	3	3	2	2
Days Open:	365	365	365	365	365	365
Occupancy:	64%	66%	64%	61%	70%	68%
Average Rate:	$145	$132	$116	$139	$152	$113
REVENUE						
Rooms	$144.95	$132.42	$115.52	$138.77	$151.86	$112.95
Food & Beverage	71.25	91.97	67.60	78.13	44.37	71.96
Telephone	5.62	5.44	2.40	3.31	5.20	3.68
Other Income	7.92	11.08	6.37	4.29	7.83	12.70
Total	229.74	240.91	191.89	224.50	209.27	201.30
DEPARTMENTAL EXPENSES						
Rooms	34.89	31.93	26.87	27.88	35.39	27.69
Food & Beverage	48.62	58.42	50.95	55.62	33.86	51.51
Telephone	3.27	2.86	2.74	2.66	1.82	1.99
Total	87.29	94.88	84.34	86.16	72.41	88.67
DEPARTMENTAL INCOME	142.45	146.03	107.55	138.34	136.86	112.63
OPERATING EXPENSES						
Administrative & General	13.99	14.44	12.30	15.09	14.10	14.11
Marketing	10.98	22.25	14.39	12.44	12.57	14.74
Property Operations & Maintenance	9.86	10.63	7.28	9.14	8.36	8.93
Energy	7.69	5.91	6.39	6.70	5.47	7.09
Total	42.52	53.24	40.36	43.37	40.50	44.87
HOUSE PROFIT	99.93	92.79	67.20	94.98	96.37	67.75
Management Fee	6.89	7.23	5.76	6.73	6.28	6.04
INCOME BEFORE FIXED CHARGES	93.04	85.56	61.44	88.24	90.09	61.72
FIXED EXPENSES						
Property Taxes	5.12	7.21	6.37	11.55	20.08	5.30
Insurance	3.51	2.65	2.13	2.27	1.82	1.06
Reserve for Replacement	11.49	12.05	9.59	11.22	10.46	10.06
Total	20.12	21.91	18.10	25.05	32.36	16.43
NET INCOME	$72.92	$63.65	$43.34	$63.19	$57.73	$45.29

Comparable Operating Statements: Composite Statement Per Occupied Room

Days Open:	365		Amount per	Amount per
Occupancy:	66%	Percentage	Available	Occupied
Average Rate:	$134	of Revenue	Room	Room
REVENUE				
Rooms	$169,718	60.9 %	$32,053	$134.03
Food & Beverage	92,125	33.1	17,398	72.75
Telephone	5,778	2.1	1,091	4.56
Other Income	11,066	4.0	2,090	8.74
Total	278,687	100.0	52,632	220.08
DEPARTMENTAL EXPENSES				
Rooms	39,721	23.4	7,502	31.37
Food & Beverage	63,751	69.2	12,040	50.34
Telephone	3,324	57.5	628	2.62
Total	109,660	39.3	20,710	86.60
DEPARTMENTAL INCOME	169,027	60.7	31,922	133.48
OPERATING EXPENSES				
Administrative & General	17,822	6.4	3,366	14.07
Marketing	19,092	6.9	3,606	15.08
Property Operations & Maintenance	11,766	4.2	2,222	9.29
Energy	8,308	3.0	1,569	6.56
Total	56,988	20.4	10,763	45.00
HOUSE PROFIT	112,039	40.2	21,159	88.48
Management Fee	8,361	3.0	1,579	6.60
INCOME BEFORE FIXED CHARGES	103,678	37.2	19,580	81.88
FIXED EXPENSES				
Property Taxes	11,220	4.0	2,119	8.86
Insurance	2,998	1.1	566	2.37
Reserve for Replacement	13,934	5.0	2,632	11.00
Total	28,152	10.1	5,317	22.23
NET INCOME	$75,526	27.1 %	$14,264	$59.64

We will refer to this comparable operating data in our discussion of each line item which follows later in this section of the report.

Premise of Forecast

The forecast of income and expense is intended to reflect the consultant's qualitative estimate of how a typical investor would project the subject property's future operating results. Depending on the dynamics of the local market, a typical investor's projection may be adjusted upward or downward. We have attempted to consider these factors in formulating this forecast.

Fixed and Variable Component Analysis

HVS International uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then held constant, while the variable component is adjusted for the percent change between the projected occupancy and facility usage and that which produced the known level of revenue or expense.

The following table illustrates the revenue and expense categories that can be projected using this fixed and variable component model. These percentages show the portion of each category that is typically fixed and variable; the middle column describes the basis for calculating the percentage of variability while the last column sets forth the fixed percentage that has been utilized in this valuation.

Range of Fixed and Variable Ratios

Category	Percent Fixed	Percent Variable	Index of Variability	Fixed Ratio
Revenues				
Food & Beverage	25 - 50	50 - 75	Occupancy	25 %
Telephone	10 - 40	60 - 90	Occupancy	10
Other Income	30 - 60	40 - 70	Occupancy	70
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Food & Beverage	35 - 60	40 - 65	Food & Beverage Revenue	55
Telephone	40 - 60	40 - 60	Telephone Revenue	60
Other Expenses	40 - 60	40 - 60	Other Income	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	75
Marketing	65 - 85	15 - 35	Total Revenue	75
Prop. Operations & Maint.	55 - 75	25 - 45	Total Revenue	75
Energy	80 - 95	5 - 20	Total Revenue	75
Management Fee	0	100	Total Revenue	0
Fixed Expenses				
Property Taxes	100	0	Total Revenue	100
Insurance	100	0	Total Revenue	100
Reserve for Replacement	0	100	Total Revenue	0

This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the *Uniform System of Accounts for Hotels.* Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by economists at some noted institutions and corporations.

Inflation Estimates

Source	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) May of 2004	November of 2003
James Smith, University of North Carolina	1.0 %	1.5 %
Ian Shepherdson, High Frequency Economics	1.8	2.2
David L. Littmann, Comerica Bank	2.0	2.2
Daniel Laufenberg, American Express	2.2	2.0
Maury Harris, UBS	1.5	2.3
Henry Willmore, Barclays Capital	2.5	2.3
William T. Wilson, Ernst & Young	2.1	1.4
Joel Prakken, Macroeconomic Advisors	1.5	2.0
Arun Raha, Eaton Corp.	2.4	2.2
Peter Hooper, Deutsche Bank	1.5	1.4
Brener/Greenlaw, Morgan Stanley	1.8	1.9
Sung Won Sohn, Wells Fargo & Co.	1.4	1.5
Richard D. Rippe, Prudential Securities	1.9	2.3
John Ryding/David Malpass, Bear Stearns	1.7	1.8
Richard DeKaser, National City	2.2	2.4
Ram Bhagavatula, The Royal Bank of Scotland	2.1	2.1
Brian Wesbury, Griffin, Kublk	2.6	2.6
Robert V. DiClemente, Citigroup	1.4	1.9
Susan Sterne, Economic Analysis Assoc.	2.0	2.5
Gail Fosler, The Conference Board	2.5	2.5
William Hummer, Wayne Hummer Investments	2.3	2.1
David Resler, Normura	2.0	1.8
Lawrence Kudlow, Kudlow & Co., LLC	2.3	2.1
Neal Soss, CSFB	1.6	2.4
Narlman Behravesh, Globel Insigh	1.9	2.2
John Silvia, Wachovia Corporation	1.6	NA
Stuart Hoffman, PNC Financial	2.2	2.4
Gary Thayer, A.G. Edwards	2.3	2.1
David Rosenberg, Merrill Lynch	1.4	2.4
David Wyss, Standard & Poor's	1.9	2.2
Ethan Harris, Lehman Brothers	1.6	2.3
David Lereah, Nati Assoc. Of Realtors	1.7	2.4
McGee/Synnott, US Trust	1.4	2.2
David Berson, Frannie Mae	1.9	2.0
Maria Ramirez, MFR Inc.	1.8	2.1
John Lonski, Moody's	2.2	2.3
Allen Sinai, Decisions Economics	1.7	2.2
Kurt Karl, Swiss Re	1.4	1.9
Saul Hymans, University of Michigan	1.7	2.4
Diane Swonk, Bank One	1.8	2.9
Mark Zendi, Economy.com	1.7	2.2
Stephen Gallagher, Societe Generale	2.0	2.3
Donald Straszhelm, Straszhelm Advisors	2.0	2.0
William Dudley, Goldman Sachs	1.7	2.1
Shrouds/Fry, DuPont	2.0	1.9
Mike Cosgrove, Econoclast	1.5	2.4
Mickey D. Levy, Bank of America	2.0	NA
Tracey Herrick, Jefferies & Co.	2.6	2.7
Nicholas Perna, Perna Associates	2.2	2.3
Edward Leamer, UCLA Anderson Forecas	2.0	2.4
J. Dewey Daane, Vanderbilt University	2.3	2.0
Kathleen M. Camilli, Camilli Econmic	1.9	NA
Richard Yamarone, Argus Research Corp.	2.5	3.3
A. Gary Shilling, Shilling & Co.	1.2	1.2
Averages	1.9 %	2.2 %
Actual Number as of May 31, 2003		2.1 %

As the preceding table indicates, the financial analysts who were surveyed anticipated inflation rates ranging from 1.0% to 2.6% (on an annualized basis) as of May 2004. A majority of the respondents estimate rates of 1.7% to 2.2%; the average is 1.9%. For the twelve months ending in November of 2003, the inflation forecasts ranged from 1.2% to 3.3%; most were between 1.9% and 2.4%, and the average was 2.2%. As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

National Consumer Price Index (All Urban Consumers)

Year	National Consumer Price Index	Percent Change from Previous Year
1993	144.5	---
1994	148.2	2.6 %
1995	152.4	2.8
1996	156.9	3.0
1997	160.5	2.3
1998	163.0	1.6
1999	166.6	2.2
2000	172.2	3.4
2001	177.1	2.8
2002	179.9	1.6
2003	184.0	2.3
Average Annual Compounded Change,		
	1993-2003:	2.45 %
	1998-2003:	2.45

Source: Bureau of Labor Statistics

Between 1993 and 2003, the national CPI increased at an average annual compounded rate of 2.5%, showing a declining trend between 2000 and 2002. In 2003, the CPI increased to 2.3%. In consideration of the most recent trends, the projections set forth above, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 2.5% in 2004 and 2005, increasing to 3.0% per year thereafter. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based on comparable income and expense statements. The following forecast is based upon calendar years beginning January 1, 2008, and is expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. Our projection of the subject property's occupancy and average rate was presented earlier in this report.

Food and Beverage Revenues

Food and beverage revenue is generated by a hotel's restaurants, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food patrons.

The *Uniform System of Accounts for Hotels/Eighth Revised Edition* defines food revenue as “revenue derived from the sale of food, including coffee, milk, tea and soft drinks. Food sales do not include meals charged on employees' (staff) checks.” Beverage revenues are “derived from the sale of beverages.” In addition to the revenue generated by the sale of food and beverages, hotels often produce other income that is related to this department, such as meeting room rentals, cover charges, service charges, and miscellaneous banquet revenue. Although food revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed.

As was illustrated by the comparable operating statements, combined food and beverage revenue ranged between roundly $44.00 and $92.00 per occupied room, or roundly 21.0% to 38.0% of total revenue. After eliminating the high and the low mark, the food and beverage collection per occupied room ranged from roundly $68.00 to $78.00; or between roundly 31.0% and 36.0% of total revenue. The composite average collection was 33.1% of total revenue, or $72.75 per occupied room.

Due to the popularity of the cultural and entertainment Riverwalk district in downtown San Antonio, there are many alternatives for dining within the general area. The area is vibrant day and night and is extremely tourist and traveler friendly, catering to leisure, convention, and business travelers alike. Therefore, it is important that food and beverage venues incorporated in the plan and scope of the subject property be intriguing and complimentary to in-house as well as potential, external patrons. While the subject site is located along the Riverwalk, the property is designed to be somewhat removed from the current concentration of Riverwalk venues; this attribute will aid the hotel in a relatively strong capture of guests within its own in-house restaurants. Moreover, the subject hotel should achieve high banquet revenues, due to its meetings-based demand capture. Based on this data, we have projected that the subject property will earn food and beverage revenues of roundly $72.00 per occupied room in the first operating year, increasing to roundly $84.00 by the stabilized year. In total, food and beverage revenues are forecast to stabilize at 30.0% of total revenues, which is considered appropriate for a convention headquarters hotel of this type.

Telephone Revenue

Telephone revenue is generated by hotel guests who charge local and long-distance calls to their rooms, and by individuals who use the property's public telephones. The comparable operating statements indicated a range per occupied room of roundly $2.00 to $6.00. The average collection was $4.56 per occupied room.

As popularity of cell phones increase, we expect telephone collections to continue to decline. Based on this data and industry-wide trends in telephone revenue collections, we have positioned the subject property with a telephone projection of under $5.00 per occupied room in the first projection year.

Other Income

Other income is derived from sources other than guestrooms, food and beverages, and telephone services. Depending on the type of hotel and the facilities and amenities offered, other income may include income generated by laundry and valet commissions, vending machines, in-room movies, front desk faxing charges, parking commissions, and short-term interest income. For the subject property, the most important and profitable components of this category are expected to be revenues from cancellation fees, valet parking premiums, the business center, short-term interest income, and gift shop profits.

We have projected the subject property to accrue other income of roundly $11.00 per occupied room by the stabilized year. This level is supported by the comparable statements, which display a range of revenue levels ranging between $4.00 and $13.00 per occupied room.

Other Income

Other income is derived from sources other than guestrooms, food and beverage, and telephone services. Depending on the type of hotel and the facilities and amenities offered, other income may include income generated by laundry and valet commissions, vending machines, in-room movies, front desk faxing charges, and short-term interest income.

The subject property is expected to realize other income revenues from a variety of sources, most notably potential retail lease/tenant income; the subject property will realize somewhat heightened other income revenues related to the likely presence of sub-grade parking facilities and parking services, among other revenue sources. We have projected the subject property's other income to equate to roundly $9.00 per occupied room in the first projection year (2008) or total other income revenue of roughly $2,100,000. The comparable data represents a wide range of data, but does support this position.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy (because managers can schedule maids, bell personnel, and house cleaners to work when demand requires), much of a hotel's payroll is fixed. Front desk personnel, public area cleaners, the housekeeper, and other supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservation expenses are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. Linen, operating supplies, and other operating expenses are only slightly affected by volume.

The individual comparable operating statements illustrate expense levels between roughly 20.0% and 25.0% of rooms revenue, with the composite statement showing an average of 23.4%; the high end of the range represents 23.0% to 25.0%. On a per occupied room basis, rooms expense ranges from $27.00 to $35.00, with an overall average of $31.37; the two highest indications were $34.89 and $35.39.

In consideration of the living wage requirement applicable to this hotel, with an expectation that the lowest hourly wage will reportedly be $9.45 per hour by the opening date according to the City of San Antonio, the subject property should fall towards the higher end of this range on a percentage of revenue basis. Moreover, the inflated, future cost per occupied room should be above the range indicated by the historical comparables. Accordingly, we forecast the subject property's rooms expense to be 25.0% of rooms revenue in the first projection year, stabilizing at 23.5% in 2011. More importantly, this equates to roughly $42.00 per occupied room by 2011; this expense level position reflects the living wage requirement imposed on this project.

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with food and beverage sales and payroll are moderately to highly correlated to their respective revenues. Items such as china, linen and uniforms are very slightly dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor.

Food and beverage expense, as indicated by the comparable statements, averaged 69.2% of food and beverage revenue, from a category range of roundly 64.0% to roundly 76.0%. On a per occupied room basis, costs ranged from $33.86 to $58.42 of food and beverage revenue, averaging $50.34. In consideration of the living wage requirement applicable to this hotel, the subject property should trend towards the higher end of these ranges. Accordingly, we forecast the subject property's food and beverage expense to stabilize at nearly 70.0% of food and beverage revenue, realizing expense ratios above this point before stabilization. More importantly, this equates to nearly $59.00 per occupied room by 2011; this expense level position reflects the living wage requirement imposed on this project.

Telephone Expense

Telephone expense consists of all costs associated with this department. In the case of small hotels with automated systems, the operation of telephones may be an additional responsibility of front desk personnel; however, most large properties employ full-time operators. The bulk of the telephone expense consists of the cost of local and long-distance calls billed by the telephone companies that provide these services. Because most calls are made by in-house guests, these costs are moderately correlated to occupancy.

The HVS-selected operating statements showed a relatively wide range of cost ratios in this category, between roundly 35.0% and 114.0% of telephone revenues, with an average of 57.5% of telephone revenue. We have positioned a first year telephone expense of roundly 64.0% of telephone revenue in 2008, stabilizing at 60.0% of telephone revenue in 2011. The living wage requirement of this property has been considered in the positioning of this expense ratio.

Other Income Expense

Other income expense consists of costs associated with other income and is dependent on the nature of the revenue. For example, if a hotel leases its gift shop to an outside operator, the expenses are limited to items such as rental fees and commissions. If the property operates its own gift shop, both revenues and expenses will be higher, and the hotel is responsible for the cost of goods sold, payroll, and so forth.

As with the revenue, the greatest cost associated with this line item are costs associated with items such as labor costs associated with parking facilities. Accordingly and upon review of comparable operating data, we estimate other income expense to equate to approximately 10.0% of other income revenue by the stabilized year. The living wage requirement of this property has been considered in the positioning of this expense ratio.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

The selected comparable income statements indicate a cost range from roundly $2,900 to roundly $3,600 per available room for administrative and general expenses; the composite average is roundly $3,400 per available room, or 6.4% of total revenue.

We have projected the administrative and general expense to equate to roundly $4,100 per available room, or 7.3% of total revenue, by 2008 (inflated dollars) and stabilize at roundly $4,600 per available room in 2011 dollars. On a stabilized basis, this expense level equates to 6.2% of total revenues. This department has few, if any, hourly employees associated with it. Therefore, the living wage requirement has little influence on this operating expense category.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

Comparable income statements selected by HVS indicate a range from 4.8% to 9.2% of total revenue, or $2,600 to $5,400 per available room. The average for the selected comparable statements is $3,606 per available room, or 6.9% of total revenue. Marketing costs, inclusive of brand marketing fees, are forecast to total 5.7% of total revenues by the stabilized year, or roundly $4,300 per available room in 2011 dollars. This department has few, if any, hourly employees associated with it. Therefore, the living wage requirement has little influence on this operating expense category.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long-term.

For property operations and maintenance, the selected comparable income statements indicate a range from roundly 3.8% to 4.4% of total revenue, or 4.2% on average. We have projected the property operations and maintenance expense to equate to roundly $2,600 per available room in the first projection year and stabilize at roundly $3,000 per available room by 2011. On a stabilized basis, this expense level equates to 4.0% of total revenues. This ratio both represents the new construction of the property and the accordingly reduced maintenance that should be required for its upkeep beyond the reserve for replacement and the living wage requirement imposed on this property, which will counteract this reduced upkeep cost.

Energy Expense

The energy consumption of a lodging facility takes several forms including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel energy are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their energy requirements with less expensive sources such as gas and oil for heating and cooking.

The selected comparable income statements indicate an energy cost range from roundly 2.5% to 3.5%; the composite average is 3.0% of total revenue.

We have positioned the subject property with a stabilized energy cost of 3.2% of total revenues, which equates to roundly $2,400 per available room in 2011 dollars. This department has no employees associated with it. Therefore, the living wage requirement has no influence on this operating expense category.

Management Fee

Management expense consists of the basic fee paid to the type of company that is anticipated to operate the subject property. Some companies provide management services alone, while others also provide a brand name affiliation. When a management company has no brand identification, the property owner often acquires a franchise that provides the necessary image and recognition. Although most hotel management companies employ a fee schedule that includes a basic fee (usually a percentage of total revenue) and an incentive fee (usually a percentage of defined profit), the incentive portion is often subordinated to debt service and may not appear in a forecast of net income before debt service. Basic hotel management fees are almost always based on a percentage of total revenue, which means they have no fixed component.

Management fees today are typically structured as some combination of a base fee calculated as a percentage of total revenues and an incentive fee calculated as a percentage gross operating income or net operating income. While base fees typically range from 1% to 4% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Due to the deal specificity of the incentive portion of the management fee total management fees are difficult to hypothesize without a specific management agreement. Even then, the ownership structure and debt level of a deal may impact the ultimate fees paid. HVS monitors current trends in management agreements and is familiar with the current range of total management. We are finding that in today's market total management fees for a first-tier management company which provides both a brand name and management expertise are ranging from 4% to 5% of total revenue. Fees paid to second-tier management companies which provide management expertise but no brand identity are ranging from 2% to 3% of total revenue.

Our forecast assumes management of the subject property by one of the major branded operating companies. For the purposes of this report, we have chosen to use a stabilized management fee of 3.0% of total revenues, which we believe to be appropriate for a hotel property of this type.

Property Taxes

Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments. Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property.

The taxing jurisdiction governing the subject property assesses real and personal property. The assessed value ratio is 100% of the county's market value. A review of the assessed values of several hotels located in the comparable jurisdiction reveals the following information.

Comparable Hotel – Current Assessment

	Number	Total Assessment			Assessment per Room		
Hotel	of Rooms	Land	Improvements	Personal	Land	Improvements	Personal
Marriott Rivercenter	1,001	$6,534,000	$83,466,000	$6,646,820	$6,527	$83,383	$6,640
Hyatt Regency	632	5,613,700	39,911,800	2,417,030	8,882	63,152	3,824
Westin Riverwalk	473	3,838,500	37,720,000	3,792,000	8,115	79,746	8,017
Hilton Palacio del Rio	481	3,384,700	30,890,300	1,434,640	7,037	64,221	2,983
Source: Bexar County Appraisal District							
Subject Property	1,000	$7,640,482	$72,625,374	$5,366,032	$7,640	$72,625	$5,366

This data represents a range of land assessments at roundly $3,400,000 to $6,500,000 and improvements assessments of roundly $63,000 to $83,000 per room.

Tax rates are based on the city and county budgets, which change annually. The following table shows changes in the tax rate per $100 of assessed value since 1999.

Historical Tax Rates

Year	Tax Rate per $100 of Assessment	Percent Change from Previous Year
1999	3.12918	—
2000	3.13012	0.0 %
2001	3.10587	(0.8)
2002	3.12151	0.5
2003	3.12156	0.0
Average Annual % Change:		(1.1) %

Source: Bexar County Appraisal District

The tax rate in the Bexar County increased at a declining rate in 2001 while increasing by only modest levels in previous and subsequent years; the 2003 tax rate then suggests stability compared to 2002. Due to the unpredictability in future tax rate changes, we have applied a 1.0% rate increase in 2004 through 2007, followed by a 1.5% increase in 2008 through 2011; property taxes then increase by the underlying inflationary rate thereafter.

Based on the comparable assessments and the tax rate information, the subject property's projected property tax expense levels are calculated as follows. We have positioned the proposed subject property's assessment at $7,600,000 (rounded) for the land, $73,000,000 (rounded) for the improvements, and $5,400,000 (rounded) for business personal property.

Historical and Projected Property Tax Expense

	Assessed Value					
Year	Land	Improvements	Personal	Total	Tax Rate per $100 Assd.	Tax Forecast
Positioned	$7,640,482	$72,625,374	$5,366,032	$80,265,857	3.1216	—
2004	7,640,482	72,625,374	5,366,032	80,265,857	3.1528	—
2005	7,640,482	72,625,374	5,366,032	80,265,857	3.1843	—
2006	7,640,482	72,625,374	5,366,032	80,265,857	3.2161	—
2007	7,640,482	72,625,374	5,366,032	80,265,857	3.2483	—
2008	7,640,482	72,625,374	5,366,032	80,265,857	3.2970	$2,646,391
2009	7,640,482	72,625,374	5,366,032	80,265,857	3.3465	2,686,087
2010	7,640,482	72,625,374	5,366,032	80,265,857	3.3967	2,726,379
2011	7,640,482	72,625,374	5,366,032	80,265,857	3.4476	2,767,274

This assessment levels are solely for the purposes of estimating property taxes and are not an indication of market value on the part of HVS International. We note that if the property is assessed at its construction (which would likely be in excess of $200 million), and not based on a review of comparable hotels and their assessments, the tax forecast and our forecast of fixed expenses for this hotel would accordingly be impacted.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. It does not include liability coverage, which is a component of administrative and general expense.

Insurance rates are based on many factors including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy. Insurance rates for hotels remained relatively low throughout the latter half of the 1990s, as competition among the insurance companies kept price increases to a minimum in most markets. In 2001, insurance rates began to increase substantially. The terrorist attacks of September 11th have strained the financial resources of the insurance and reinsurance industries, resulting in further increases in insurance costs. As a result, premiums have increased by anywhere from 25% to 100%.

Eliminating the high and low statements, the selected comparable operating statements indicated an insurance expense range of 0.9% to 1.1% of total revenue, or $461 to $643 per available room. The composite statement indicated an average insurance expense of 1.1% of total revenue or $566 per available room.

We project the subject property's insurance expense at $689 per available room in the first projection year. In subsequent years, this amount is assumed to increase in tandem with inflation; the stabilized insurance expense ratio for the property is forecast to be 1.0%.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. For the purposes of this market study and based on the financing structure of the Fort Worth project, the reserve for replacement is allocated after debt service and is therefore not illustrated in the upcoming forecast of income and expense. The following reserve discussion is included for illustrative and informational purposes only.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service, limited-service, and all-suite hotels (inclusive of extended-stay). A separate category of all-suite hotels was added as a result of the aggressive development of this product over the past ten years and its growing percent of total rooms in the U.S. hotel industry. The findings of the study were published in a report in 2000.[1] The historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by hotel owners and operators for the 1988 to 1998 period in the United States. This resulted in useable survey data from approximately 350 hotels.

A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short and long lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year and depend upon both the actual and effective age of a property. The ISHC advocates a position that the right amount to set aside for, or spend on, capital expenditures varies from property to property and is dependent upon a number of variables that must be evaluated in the context of the competitive market, financial resources of the owner/operator, quality of construction, age of the property, as well as the philosophy and strategic operating approach of the stakeholders in the asset. The study shows that average capital expenditure spending increases over time, ranging between 1.31% and 6.23% of total revenues in the first five years of operation with an average of expenditure of 3.02%. This range increased to between 2.37% and 16.98% over the next twenty years, assuming a product life cycle of twenty-five years.

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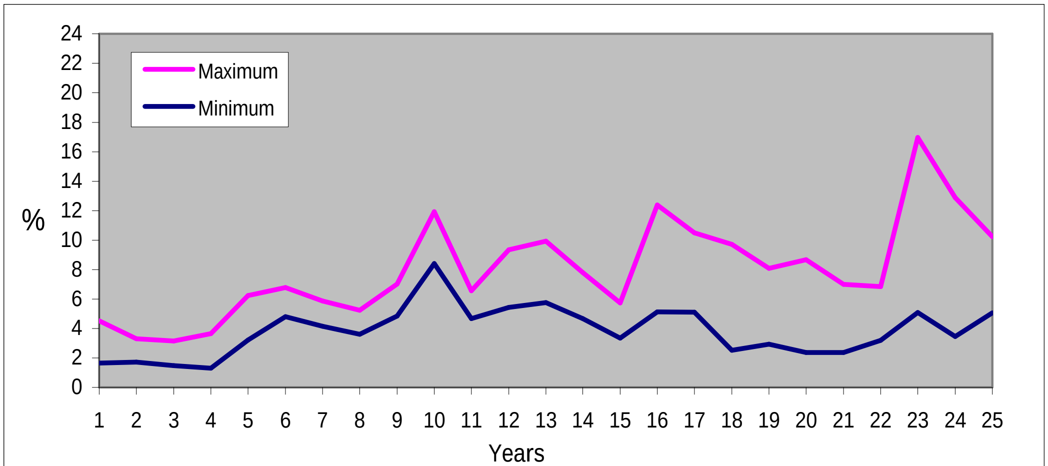
[1] The International Society of Hotel Consultants, *CapEx 2000, A Study of Capital Expenditures in the U.S. Hotel Industry,* 2000.

The following chart illustrates that the minimum and maximum ends of the ranges generally move further apart as the hotels increase in age.

Average Capital Expenditure Range by Year as a Ratio to Total Revenue



Source: The International Society of Hotel Consultants

The previous chart sets forth capital expenditures for the entire hotel of which 14% to 30% or more of that spending is spent on the building and other long-lived items. Because the reserve for replacement is meant primarily to renovate or replace FF&E and other short-lived items, lenders and management companies typically require reserves ranging from 2% to 5% of total revenue. We believe this range of reserve for replacement is adequate particularly for new hotels or recently renovated hotels.

Given the new construction of the property, this reserve gradually increases through the first several years of operation. Based on an analysis of comparable lodging facilities, we estimate reserve for replacement of 2.0% of total revenue in the first projection year, 3.0% in the second year, 4.0% in the third year, and 5.0% of total revenues in the stabilized year and annually thereafter.

Summary of Projections

Based on the preceding analysis, we have formulated a forecast of income and expense. The tables on the following pages present the following: first, a detailed forecast through the fourth projection year, including amounts per available room (PAR) and per occupied room (POR); second, a summary forecast through the tenth projection year. The forecasts pertain to calendar operating years beginning January 1, 2008, and are expressed in inflated dollars for each year.

Detailed Forecast of Income and Expense, Proposed Headquarters Hotel, San Antonio, Texas

	2008				2009				2010				Stabilized				2012			
Number of Rooms:	1000				1000				1000				1000				1000			
Occupancy:	62%				68%				71%				73%				73%			
Average Rate:	$159.78				$168.56				$175.38				$180.66				$186.08			
RevPAR:	$99.06				$114.62				$124.52				$131.88				$135.84			
Days Open:	365				365				365				365				365			
Occupied Rooms:	226,300	%Gross	PAR	POR	248,200	%Gross	PAR	POR	259,150	%Gross	PAR	POR	266,450	%Gross	PAR	POR	266,450	%Gross	PAR	POR
REVENUE																				
Rooms	$36,157	64.9 %	$36,157	$159.77	$41,837	64.6 %	$41,837	$168.56	$45,449	64.4 %	$45,449	$175.38	$48,137	64.4 %	$48,137	$180.66	$49,581	64.4 %	$49,581	$186.08
Food & Beverage	16,361	29.4	16,361	72.30	19,225	29.7	19,225	77.46	21,084	29.9	21,084	81.36	22,396	30.0	22,396	84.05	23,067	30.0	23,067	86.57
Telephone	1,058	1.9	1,058	4.67	1,183	1.8	1,183	4.76	1,266	1.8	1,266	4.89	1,337	1.8	1,337	5.02	1,377	1.8	1,377	5.17
Other Income	2,110	3.8	2,110	9.32	2,492	3.8	2,492	10.04	2,736	3.9	2,736	10.56	2,841	3.8	2,841	10.66	2,926	3.8	2,926	10.98
Total Revenues	55,686	100.0	55,686	246.07	64,736	100.0	64,736	260.82	70,534	100.0	70,534	272.18	74,711	100.0	74,711	280.39	76,952	100.0	76,952	288.80
DEPARTMENTAL EXPENSES *																				
Rooms	9,047	25.0	9,047	39.98	10,163	24.3	10,163	40.95	10,862	23.9	10,862	41.92	11,312	23.5	11,312	42.46	11,652	23.5	11,652	43.73
Food & Beverage	11,958	73.1	11,958	52.84	13,850	72.0	13,850	55.80	14,959	71.0	14,959	57.72	15,621	69.8	15,621	58.63	16,090	69.8	16,090	60.38
Telephone	673	63.7	673	2.98	738	62.4	738	2.97	771	60.9	771	2.98	802	60.0	802	3.01	826	60.0	826	3.10
Other Expenses	245	11.6	245	1.08	262	10.5	262	1.06	275	10.1	275	1.06	284	10.0	284	1.07	293	10.0	293	1.10
Total	21,924	39.4	21,924	96.88	25,013	38.6	25,013	100.78	26,868	38.1	26,868	103.68	28,020	37.5	28,020	105.16	28,860	37.5	28,860	108.31
DEPARTMENTAL INCOME	33,762	60.6	33,762	149.19	39,723	61.4	39,723	160.05	43,667	61.9	43,667	168.50	46,691	62.5	46,691	175.23	48,092	62.5	48,092	180.49
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	4,051	7.3	4,051	17.90	4,287	6.6	4,287	17.27	4,475	6.3	4,475	17.27	4,642	6.2	4,642	17.42	4,781	6.2	4,781	17.94
Marketing	3,722	6.7	3,722	16.45	3,939	6.1	3,939	15.87	4,113	5.8	4,113	15.87	4,265	5.7	4,265	16.01	4,393	5.7	4,393	16.49
Prop. Operations & Maint.	2,628	4.7	2,628	11.61	2,781	4.3	2,781	11.20	2,903	4.1	2,903	11.20	3,011	4.0	3,011	11.30	3,101	4.0	3,101	11.64
Energy	2,080	3.7	2,080	9.19	2,201	3.4	2,201	8.87	2,298	3.3	2,298	8.87	2,384	3.2	2,384	8.95	2,455	3.2	2,455	9.21
Total	12,481	22.4	12,481	55.15	13,208	20.4	13,208	53.22	13,789	19.5	13,789	53.21	14,301	19.1	14,301	53.67	14,730	19.1	14,730	55.28
HOUSE PROFIT	21,281	38.2	21,281	94.04	26,515	41.0	26,515	106.83	29,878	42.4	29,878	115.29	32,390	43.4	32,390	121.56	33,362	43.4	33,362	125.21
Management Fee	1,671	3.0	1,671	7.38	1,942	3.0	1,942	7.82	2,116	3.0	2,116	8.17	2,241	3.0	2,241	8.41	2,309	3.0	2,309	8.66
INCOME BEFORE FIXED CHARGES	19,611	35.2	19,611	86.66	24,573	38.0	24,573	99.00	27,762	39.4	27,762	107.13	30,149	40.4	30,149	113.15	31,053	40.4	31,053	116.54
FIXED EXPENSES																				
Property Taxes	2,646	4.8	2,646	11.69	2,686	4.1	2,686	10.82	2,726	3.9	2,726	10.52	2,767	3.7	2,767	10.39	2,850	3.7	2,850	10.70
Insurance	689	1.2	689	3.04	709	1.1	709	2.86	731	1.0	731	2.82	753	1.0	753	2.82	775	1.0	775	2.91
Reserve for Replacement	1,114	2.0	1,114	4.92	1,942	3.0	1,942	7.82	2,821	4.0	2,821	10.89	3,736	5.0	3,736	14.02	3,848	5.0	3,848	14.44
Total	4,449	8.0	4,449	19.66	5,338	8.2	5,338	21.51	6,279	8.9	6,279	24.23	7,256	9.7	7,256	27.23	7,473	9.7	7,473	28.05
NET INCOME	$15,162	27.2 %	$15,162	$67.00	$19,235	29.8 %	$19,235	$77.50	$21,483	30.5 %	$21,483	$82.90	$22,893	30.7 %	$22,893	$85.92	$23,580	30.7 %	$23,580	$88.50

*Departmental expenses are expressed as a percentage of departmental revenues.

Summary Forecast of Income and Expense, Proposed Headquarters Hotel, San Antonio, Texas

	2008		2009		2010		2011		2012	
Number of Rooms:	1000		1000		1000		1000		1000	
Occupied Rooms:	226,300		248,200		259,150		266,450		266,450	
Occupancy:	62%		68%		71%		73%		73%	
Average Rate:	$159.78	% of	$168.56	% of	$175.38	% of	$180.66	% of	$186.08	% of
RevPAR:	$99.06	Gross	$114.62	Gross	$124.52	Gross	$131.88	Gross	$135.84	Gross
REVENUE										
Rooms	$36,157	64.9 %	$41,837	64.6 %	$45,449	64.4 %	$48,137	64.4 %	$49,581	64.4 %
Food & Beverage	16,361	29.4	19,225	29.7	21,084	29.9	22,396	30.0	23,067	30.0
Telephone	1,058	1.9	1,183	1.8	1,266	1.8	1,337	1.8	1,377	1.8
Other Income	2,110	3.8	2,492	3.8	2,736	3.9	2,841	3.8	2,926	3.8
Total	55,686	100.0	64,736	100.0	70,534	100.0	74,711	100.0	76,952	100.0
DEPARTMENTAL EXPENSES*										
Rooms	9,047	25.0	10,163	24.3	10,862	23.9	11,312	23.5	11,652	23.5
Food & Beverage	11,958	73.1	13,850	72.0	14,959	71.0	15,621	69.8	16,090	69.8
Telephone	673	63.7	738	62.4	771	60.9	802	60.0	826	60.0
Other Expenses	245	11.6	262	10.5	275	10.1	284	10.0	293	10.0
Total	21,924	39.4	25,013	38.6	26,868	38.1	28,020	37.5	28,860	37.5
DEPARTMENTAL INCOME	33,762	60.6	39,723	61.4	43,667	61.9	46,691	62.5	48,092	62.5
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	4,051	7.3	4,287	6.6	4,475	6.3	4,642	6.2	4,781	6.2
Marketing	3,722	6.7	3,939	6.1	4,113	5.8	4,265	5.7	4,393	5.7
Prop. Operations & Maint.	2,628	4.7	2,781	4.3	2,903	4.1	3,011	4.0	3,101	4.0
Energy	2,080	3.7	2,201	3.4	2,298	3.3	2,384	3.2	2,455	3.2
Total	12,481	22.4	13,208	20.4	13,789	19.5	14,301	19.1	14,730	19.1
HOUSE PROFIT	21,281	38.2	26,515	41.0	29,878	42.4	32,390	43.4	33,362	43.4
Management Fee	1,671	3.0	1,942	3.0	2,116	3.0	2,241	3.0	2,309	3.0
INCOME BEFORE FIXED CHARGES	19,611	35.2	24,573	38.0	27,762	39.4	30,149	40.4	31,053	40.4
FIXED EXPENSES										
Property Taxes	2,646	4.8	2,686	4.1	2,726	3.9	2,767	3.7	2,850	3.7
Insurance	689	1.2	709	1.1	731	1.0	753	1.0	775	1.0
Reserve for Replacement	1,114	2.0	1,942	3.0	2,821	4.0	3,736	5.0	3,848	5.0
Total	4,449	8.0	5,338	8.2	6,279	8.9	7,256	9.7	7,473	9.7
NET INCOME	$15,162	27.2 %	$19,235	29.8 %	$21,483	30.5 %	$22,893	30.7 %	$23,580	30.7 %

	2013		2014		2015		2016		2017	
Number of Rooms:	1000		1000		1000		1000		1000	
Occupied Rooms:	266,450		266,450		266,450		266,450		266,450	
Occupancy:	73%		73%		73%		73%		73%	
Average Rate:	$191.66	% of	$197.41	% of	$203.34	% of	$209.44	% of	$215.72	% of
RevPAR:	$139.91	Gross	$144.11	Gross	$148.44	Gross	$152.89	Gross	$157.48	Gross
REVENUE										
Rooms	$51,069	64.4 %	$52,601	64.4 %	$54,179	64.4 %	$55,804	64.4 %	$57,478	64.4 %
Food & Beverage	23,759	30.0	24,472	30.0	25,206	30.0	25,963	30.0	26,741	30.0
Telephone	1,418	1.8	1,461	1.8	1,505	1.8	1,550	1.8	1,597	1.8
Other Income	3,014	3.8	3,105	3.8	3,198	3.8	3,294	3.8	3,393	3.8
Total	79,261	100.0	81,639	100.0	84,088	100.0	86,610	100.0	89,209	100.0
DEPARTMENTAL EXPENSES*										
Rooms	12,001	23.5	12,361	23.5	12,732	23.5	13,114	23.5	13,507	23.5
Food & Beverage	16,572	69.8	17,069	69.8	17,581	69.8	18,109	69.8	18,652	69.8
Telephone	851	60.0	877	60.0	903	60.0	930	60.0	958	60.0
Other Expenses	301	10.0	310	10.0	320	10.0	329	10.0	339	10.0
Total	29,726	37.5	30,618	37.5	31,536	37.5	32,482	37.5	33,457	37.5
DEPARTMENTAL INCOME	49,535	62.5	51,021	62.5	52,552	62.5	54,128	62.5	55,752	62.5
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	4,924	6.2	5,072	6.2	5,224	6.2	5,381	6.2	5,542	6.2
Marketing	4,525	5.7	4,661	5.7	4,801	5.7	4,945	5.7	5,093	5.7
Prop. Operations & Maint.	3,194	4.0	3,290	4.0	3,389	4.0	3,490	4.0	3,595	4.0
Energy	2,529	3.2	2,605	3.2	2,683	3.2	2,763	3.2	2,846	3.2
Total	15,172	19.1	15,627	19.1	16,096	19.1	16,579	19.1	17,076	19.1
HOUSE PROFIT	34,363	43.4	35,394	43.4	36,456	43.4	37,549	43.4	38,675	43.4
Management Fee	2,378	3.0	2,449	3.0	2,523	3.0	2,598	3.0	2,676	3.0
INCOME BEFORE FIXED CHARGES	31,985	40.4	32,945	40.4	33,933	40.4	34,951	40.4	35,999	40.4
FIXED EXPENSES										
Property Taxes	2,936	3.7	3,024	3.7	3,115	3.7	3,208	3.7	3,304	3.7
Insurance	799	1.0	822	1.0	847	1.0	873	1.0	899	1.0
Reserve for Replacement	3,963	5.0	4,082	5.0	4,204	5.0	4,331	5.0	4,460	5.0
Total	7,697	9.7	7,928	9.7	8,166	9.7	8,411	9.7	8,663	9.7
NET INCOME	$24,288	30.7 %	$25,016	30.7 %	$25,767	30.7 %	$26,539	30.7 %	$27,336	30.7 %

*Departmental expenses are expressed as a percentage of departmental revenues.

Conclusion

In this section, we presented a forecast of income and expense for the proposed subject property. This forecast was presented in calendar years, reflecting inflated dollars beginning in 2008. Our cash flow projections follow from previously discussed occupancy and average rate projections set forth in previous sections. As noted, it is assumed that the subject property would be built with the facilities listed in the proposed facility chapter of this report, and that the hotel would be first-class in nature and be branded as such.

Our report assumes that the pre-selling of the hotel will begin no later than 2006, and that a certain pre-booking pace will be maintained between this time and the opening of the hotel. Additionally, our projections assume that management will sell the guestrooms of the hotel at a price point commensurate with a first-class, full-service hotel, at the rate levels set forth in the average rate chapter of this report. Should a strategy of considerable rate discounting be employed, our operating projections would be impacted.

Finally, we assume that the relationship between the hotel, the convention center, and San Antonio CVB will be a positive and effective one, as the convention center would serve as the hotel's primary demand generator.

12. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. We have not considered the presence of potentially hazardous materials on the proposed sites, such as asbestos, urea formaldehyde foam insulation, PCBs, any form of toxic waste, polychlorinated biphengyls, pesticides, or lead-based paints. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
4. We have made no survey of the property, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that there is no encroachment or trespass unless noted.
5. All information, estimates, and opinions obtained from parties not employed by HVS International are assumed to be true and correct. We can assume no liability resulting from misinformation.
6. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
7. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
8. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
9. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per diem fees and travel costs are paid prior to the appearance.

10. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
11. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
12. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
13. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel investor.
14. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on the date of our field inspection.
15. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
16. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

17. This report was prepared by HVS International, a division of DFW Hospitality Consulting, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of DFW Hospitality Consulting, LLC as employees, rather than as individuals.
18. This report is set forth as a market study of the proposed subject property; this is not an appraisal report.

13. Certification

We, the undersigned, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Amanda L. Repert and Rodney G. Clough personally inspected the property described in this report;
4. that the consultants have extensive experience in the evaluation of hotels and believe that they are competent to undertake this market study;
5. that we have no current or contemplated interests in the real estate that is the subject of this report;
6. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
7. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
8. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this study;
9. that this report has been prepared in accordance with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
10. that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;

11. that this report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (as adopted by the Appraisal Foundation);
12. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this market study report;
13. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
14. that this report is not based on a requested minimum results or the approval of a loan.

DRAFT REPORT

Amanda L. Repert
Vice President

DRAFT REPORT

Rodney G. Clough, MAI
Managing Director

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

Base Year Occupancy and Penetration Levels

Property	Number of Rooms	Fair Share	Estimated Market Segmentation: Commercial	Meeting	Leisure	Occupancy	Penetration
Hotel A	100	23.5%	60%	20%	20%	75.0%	100.8%
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Total/Average	425	100.0%	47%	38%	15%	74.4%	100.0%

Based upon each hotel's room count, market segmentation and annual occupancy the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below:

Marketwide Room Night Demand

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4%
Meeting	43,481	37.7
Leisure	17,246	14.9
Total	115,431	100.0%

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The chart below sets forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and

2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following chart sets forth each hotel's fair share, commercial market share and commercial penetration factor.

Commercial Segment Penetration Factors

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5%	12,973	30.0%	127.6%
Hotel B	125	29.4	14,054	37.9	129.0
Hotel C	200	47.1	27,677	32.0	68.1
Total/Average	425	100.0%	115,431	100.0%	100.0%

When a new 100-room hotel enters the market the fair share of each hotel changes due to the new denominator which has been increased by the 100 rooms which have been added to the market.

Commercial Segment Fair Share

Property	Number of Rooms	Fair Share
Hotel A	100	19.0%
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	525	100.0%

The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. The market share of the existing hotels and that of the new hotel are added up and they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator which is comprised of the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

Commercial Segment Projections (Year 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0%	127.6%	24.3%	25.0%	131.4%	13,687
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Total	525	100.0%		97.1%	100.0%		54,704

In its second year of operation the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates due to the new hotel's above market penetration. Also note that after the market share adjustment the new hotel retains a penetration rate commensurate with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points due to the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room night demand. This calculation is shown below.

Commercial Segment Projections (Year 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0%	131.4%	25.0%	23.1%	121.5%	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Total	525	100.0%		97.1%	100.0%		54,704